

FINANCE COMMITTEE

Tuesday 28 October 2003
(*Morning*)

Session 2

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FINANCE COMMITTEE

10th 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)

David Mundell (South of Scotland) (Con)

Iain Smith (North East Fife) (LD)

THE FOLLOWING ALSO ATTENDED:

Margo MacDonald (Lothians) (Ind)

Professor Arthur Midwinter (Adviser)

THE FOLLOWING GAVE EVIDENCE:

Robert Brown MSP (Scottish Parliamentary Corporate Body)

Derek Croll (Scottish Parliament Clerk/Chief Executive's Group)

Paul Grice (Scottish Parliament Clerk and Chief Executive)

Donald MacRae (Lloyds TSB Scotland plc)

Peter Wood (DTZ Pieda Consulting Ltd)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Jane Sutherland

ASSISTANT CLERK

Emma Berry

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Tuesday 28 October 2003

(Morning)

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

The Convener (Des McNulty): I welcome the press and the public to the 10th meeting of the Finance Committee in the second session of the Parliament and I remind people that they should switch off their pagers and mobile phones. Wendy Alexander has sent apologies; she will be unable to attend the whole meeting, as she has other commitments.

Members should have, as well as the papers that they received earlier, additional papers that were sent by e-mail on Friday and Monday. Those include Donald MacRae's submission in relation to the 2004-05 budget, Paul Grice's letter in relation to Holyrood and correspondence from the Public Petitions Committee and from Allan Wilson about petition PE670.

Budget Process 2004-05

10:06

The Convener: The first item on the agenda is further consideration of the 2004-05 budget process. The committee previously agreed to take evidence on the draft budget from independent commentators and I welcome Donald MacRae, who is chief economist with Lloyds TSB Scotland plc and Peter Wood, who is head of policy at DTZ Pida Consulting Ltd. Both witnesses may make an opening statement if they want to, before we proceed to questions.

Donald MacRae (Lloyds TSB Scotland plc): Good morning. I am honoured to have been asked to appear before the committee. This is the first time that I have been a committee witness, so I hope that you will bear with me if some of the points that I make are obvious and if I ask simple questions that have already been answered.

I am the strategy and finance director of Lloyds TSB Scotland and I am also the chief economist, so I publish regular information on the housing market, the economy in general and overall business conditions. I think that it is important to say that I am also a member of the Scottish Executive economics advisory group and the Scottish Executive economic statistics advisory group, I am a non-executive member of Scottish Homes, I have a visiting chair in business and economic development at the University of Abertay in Dundee, I am a trustee of the David Hume Institute and, finally, I am on the single survey steering group, which is the successor to the housing improvement task force. I should also say that the views that I express in my submission to the committee are personal and are not those of Lloyds TSB Scotland.

This is the first time that I have looked at the budget and I confess that I find its presentation hard to understand. It is not a budget as much as a collection of spending plans. A budget normally shows both income and expenditure, but the draft budget document really just reflects the current constitutional arrangements for raising and spending taxes.

Total spending in Scotland will increase substantially under the budget plans. The increase will bring public spending in Scotland to around 50 per cent of gross domestic product, which puts Scotland ahead of the United Kingdom and many other European countries. The budget will make Scotland's overall economy more dependent on the public sector.

I found little linkage in the budget between the expressed priorities and the planned expenditure totals. The document contains many references to

opportunities, sustainability, closing gaps and so on. I found many references to outputs in the document, but outcomes are far more important than outputs. I recommend that fewer priorities should be set and that an attempt should be made to rank priorities. That would lead to better understanding. Indeed, I found a plethora of targets in the document—there should be fewer, and not more, such targets.

I believe that there is an inconsistency between the changes that are proposed for the enterprise and lifelong learning budget and the stated objective of concentrating on economic growth. I could not quite match up those two aspects.

I found it difficult to make inter-year comparisons, partly because of the use of different discount rates. The rate varied from 6 per cent to 3.5 per cent, to try to assess a degree of depreciation. It might be useful to consider restating previous years in a common format so that comparisons can be made. I cannot comment on one of the questions that the committee asked me to address—the balance between capital and revenue—because of that difficulty. I recommend that data are produced covering several years, so that we can see the impact of policies and how they change.

I found the change in the amounts raised under non-domestic rates significant. I had difficulty in seeing enough transparency in the yield from that important element of income.

Although a high percentage of school leavers go into further and higher education in Scotland, a higher percentage of pupils than in England leave with no qualifications. I wondered whether the relevant education priority was correctly expressed in the budget plans.

It is much easier to approve budget increases than it is to approve budget decreases. I do not want to get into particular areas, but it is clear to me that, given the overall macroeconomic environment at the UK level, increases of the same size as have been available over the past three years will not be available in forthcoming years and there may even be a need for a reduction. That puts a great focus on getting the priorities right and on making them more transparent than they currently are to me.

My recommendations are: data covering five years; fewer targets; ranking of priorities; reconsideration of the priorities relating to education and economic development; a common base for all the years; a little less end-year flexibility; a bit more transparency on the reserve, which seems to have increased substantially without a particular explanation; and a lot more clarity on the balance between capital and revenue.

The Convener: Thank you. You raise a number of substantive issues and a number of process issues, which the committee has already discussed. It is useful to have received those comments. I ask Peter Wood to make an opening statement.

Peter Wood (DTZ Pida Consulting Ltd): Good morning. I thank the committee for asking me to appear before it. This is the third time that I have appeared before the committee, which is an event that I always face with some trepidation as well as excitement.

As I have said before, I am an economist by profession. I have been a consultant economist for about 20 years. Most of my professional work is involved with public policy issues, public expenditure and value for money in public expenditure. Although the greater part of my work has been in Scotland, I regularly work in Wales and Northern Ireland as well as in England. To some extent, I have tried to draw on that experience in examining the way in which devolved Assemblies are beginning to affect patterns of expenditure in their areas.

I have examined three main issues. The first is the overall structure of the budget. As I have said, I will try to illuminate that a little by making comparisons with what happens in the other devolved Administrations. The second is more of a process issue and relates to the way in which the priorities in the budget are expressed and the kind of objectives and targets that emerge in the budget document. The third issue is questions and observations on aspects of increased expenditure—the points that I will make on that relate back to objectives and targets.

The documentation that is produced in support of the budget is full and detailed. I hope that I am not doing a disservice to our colleagues elsewhere, but I would say that the documentation is more detailed than what comes out of the National Assembly for Wales or the ever-changing Northern Ireland Administration—I am never quite sure who I am dealing with in Northern Ireland. Both those Administrations produce documents to support their budgets, but the Scottish documents are particularly detailed and provide a wealth of information for those who are prepared to mine them.

10:15

I sometimes think that the big picture is not so easy to discern in all the detail, so I have tried to ask what major priorities emerge from the budget proposals. What do they say about Scottish priorities and can we make comparisons with other areas?

Public expenditure in Scotland is set to grow by approximately £1.6 billion in real terms over the

next two years. More than half that expenditure—by my calculation, 52 per cent of the increase—will be accounted for by health, which currently takes about a third of the budget. A priority that screams out from the figures, but perhaps is not stated in the text, is that the Parliament or the Executive has decided that its number 1 priority is expenditure on health. I am not saying that that is wrong or that it is right, but it seems to be implicit in the figures. The reasons behind that have been discussed widely. The priorities in health are probably reasonably well understood.

It is notable that, although the sums of money involved are much smaller, there are large proportionate increases in tourism, sport and culture and in aspects of education. Some smallish areas of spending—although we are talking about tens of millions of pounds—show large increases, the reasons for which are perhaps not made clear in the document.

When we go down to a more detailed level, below the main headings, we can see that there is above-average growth and expenditure in higher education and lifelong learning but, interestingly, a cut in expenditure on economic development.

I found it difficult to make comparisons with Wales and Northern Ireland because of data problems. The data are not presented in the same way and the departmental headings are not the same. I spent a lot of time trying to disentangle spending and to put numbers back together again. Therefore, caveats attend any comments that I make.

What is striking is that, although there are variations in the pattern of spending—one of the main variations is that Scottish spending overall tends to be higher—there are some broad similarities in the pattern at the large scale. For example, spending on health ranges from about £1,400 per person per annum to £1,500 per person per annum across the three jurisdictions and spending on economic development is about £120 per person per annum in Scotland and Wales and a bit higher—£140 per person per annum—in Northern Ireland. The detailed figures do not matter, but the broad similarities exist.

Higher education spending is similar per person across the three jurisdictions, but a bit higher in Scotland than it is elsewhere. Conversely, lifelong learning spending per person is broadly similar, particularly in Scotland and Northern Ireland, but it is a bit higher in Wales. Local government subventions are higher in Scotland than in Wales—obviously that does not apply in Northern Ireland. Rural development spending is similar in Scotland and Wales, but it is a bit higher in Northern Ireland. Scottish expenditure on social housing is a bit lower than expenditure in the other two jurisdictions, although Scottish spending on it

is rising while spending in the other two jurisdictions is being cut.

There are broad similarities in the relative sizes of spending categories among the areas and, although there are some differences, those differences are not profound. In all three areas, expenditure on health care, lifelong learning and higher education is tending to rise a bit above average. On balance, the similarities are greater than the differences.

One of the intriguing questions as we go forward with the devolved Administrations is whether devolution will give rise to divergence and different patterns of expenditure in different parts of the United Kingdom. One of the fundamental arguments for devolution, from the position of what is termed fiscal federalism, is that expenditure could be adjusted more to meet the aspirations and preferences of local populations. It is still not evident how the different Administrations will alter the distribution of public spending from what would have prevailed in pre-devolution days; the nature of that change is not yet evident. It is not yet clear to me what distinctive stamp, if I can put it that way, will be placed on public expenditure by the Scottish Parliament and by the will of the Scottish Parliament. That remains to be seen.

Some of what I have to say on objectives and targets will echo points that Donald MacRae has made. The budget statement and its supporting documents are very detailed. However, they contain many detailed priorities rather than discussion of the overall priorities. Below the level of detailed targets for increases, it is not clear why the big decisions have been made. Why is spending on health and transport being increased more than spending on higher education? Why is there such a large increase in expenditure on leisure, sport and culture? The targets are detailed, but, rather than telling us about high-level priorities, they are what I would call microtargets or, perhaps, middle-ranking targets.

If spending is being increased, what is the rationale for increases and for where those increases lie? What do we get from increased expenditure? Like many public sector budgets, the Scottish budget still lacks a clear sense of the relationship between inputs and outputs. In businesses, a budget is a statement of the resources that are required to produce certain outcomes. I look at the increased spending in the Scottish budget and ask whether that spending is intended to increase the quantity or quality of public services or whether it is about keeping pace with public sector cost inflation—increasing spending in real terms just to stand still. For all the detailed information that appears in the budget, it is hard to discern the answer to that question.

I offer members some examples—which are just examples. There is a large increase in central spending on teachers, which will rise from £16 million to £95 million. I am sure that there is a good reason for that, but it is not at all evident from the budget document. The sportscotland budget will triple in size, rising from £15 million to £45 million. It is suggested that the increase will come partly from money that was set aside for the Euro 2008 bid, which was, sadly, unsuccessful. However, that has the whiff of saying, “We have some money lying around, so let us spend it on something.” The budget does not indicate why sportscotland has suddenly become a priority, when it was not previously. I am not saying that there is not a good reason for the increase, but it is not evident.

It would be beneficial if the budget statement gave a clearer view of why and where spending is being increased and of what that spending is buying. If the budget were to examine the difference between the growth in output in public services—for example, the numbers of patients treated and children taught—and the cost-per-unit output, that would provide us with a better understanding of what we get at the margin from increased spending. There are interesting issues in health. How many people will be treated for what types of illness? Are costs rising for drugs, equipment or staff? What are the impacts on the quality and quantity of care? I do not dispute the fact that those are challenging questions, but it would be intriguing to see the budget grapple with them.

I thank the committee for bearing with me. The Scottish budget is well ahead of those of other jurisdictions in the information supplied and the amount of consultation that is implicit in the process, but further progress could be made in understanding what we procure for the resources that we commit.

The Convener: Thank you. I invite members to put questions to our witnesses.

Mr Ted Brocklebank (Mid Scotland and Fife) (Con): My first question is for Donald MacRae. Like many members, I was concerned by the criticisms that you levelled at “Building a Better Scotland”. Specifically, I note your observation that the budget will make the Scottish economy much more dependent on the public sector. By your estimate, last year Scottish public spending rose to about 50 per cent of gross domestic product. What does that say about the underlying state of the Scottish economy? Can you develop your concerns?

Donald MacRae: There are two elements to the issue. First, there is a risk that high public spending may crowd out private sector activity. Secondly, high public spending exaggerates the

weakness of the private sector in Scotland. Both elements have contributed to the poor performance overall of the Scottish economy over the past few years. There is more innovation and there are higher productivity increases in the private sector than in the public sector. The Scottish economy is weak in that area, partly because of the strength of the public sector compared with the private sector.

I stress that I am not saying that the budget increases are wrong or that the public sector is too big. The problem is rather that the private sector is too small in comparison with the public sector. I am not against the planned increases in public spending, but they highlight the dependence of the Scottish economy on the public sector. The support that the public sector provides is not guaranteed, because the spending increases that have taken place in the past few years may not continue in coming years.

Mr Brocklebank: You draw attention to the fact that the figure of 50 per cent of GDP accounted for by public spending is considerably higher than that in many other European countries. Is that an historic feature of the structure of the Scottish economy? An increasing proportion of jobs seems to be provided in the public sector. What are the historical reasons for that?

Donald MacRae: In the past two years, there has been a substantial decline in the number of manufacturing jobs. Unemployment has been kept low by an increase in the number of jobs in the service sector, a large proportion of which are public sector jobs. The increase in public spending has performed the function of keeping unemployment as measured by claimant count and other methods low. That is good, but it again shows the dependence of the economy on the public sector. I could show the committee data derived from the Scottish Executive over a number of years that indicate that, in the longer term, the Scottish economy has been particularly dependent on public sector spending.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): I want to pursue the issue of public sector jobs. We are grappling with statistics that suggest that almost 97 per cent of the budget has effectively already been allotted. We have flexibility to put pressure on the Executive to spend only a very small amount of money differently. In places where local authorities and health boards are the main providers of employment, what scope is there to rebalance the situation with jobs in the private sector? Will that be a long-term process? If the budget for the public sector is constricted over the next five years, that may cause major structural problems in Scotland.

Donald MacRae: There are about 20 questions wrapped into that one observation. Broadly, we need to think carefully about how to stimulate the private sector in Scotland, which is still by far the largest part of the economy. We need to think about changing some policies that are encapsulated in "A Smart, Successful Scotland". I do not disagree with those policies, but they do not go far enough. The changes that I suggest include fiscal changes, which would require a major alteration to the current settlement.

Dr Elaine Murray (Dumfries) (Lab): I want to take you to task slightly on the figure for public spending, which may be the result of the budget's failure to flag up the fact that a significant amount of spending—for example, in education—is assigned to schemes such as public-private partnerships. I do not want to start a political argument about that expenditure, about which there are different views. However, £2 billion of the education budget is allocated to public-private partnerships. Large-scale stock transfer of housing will stimulate the private sector, which will also benefit from spending on the central heating programme. Admittedly, that investment is not market led, but it is creating opportunity in the private sector. Are you arguing that such spending should be more visible in the budget, or are you not taking it into account in the 50 per cent figure?

10:30

Donald MacRae: I am delighted that you have drawn attention to that issue. If I have misread the budget, I apologise. You point out that a large part of the budget will be used on, or will stimulate, the private sector. Is that your point?

Dr Murray: Yes. Some public spend not only goes on public sector jobs but is invested in and stimulates private sector jobs.

Donald MacRae: That point is fine, but the trend in the number of jobs in the public sector does not quite square with it. The number of people employed in the public sector has increased substantially.

I do not want to give the impression that I am anti-public sector—I want that to be clear and on the record. However, I am suggesting that the private sector is weaker than it might be and that the dominance of the public sector in certain areas of Scotland can crowd out some private sector activity.

I would like to make a final point on education. Dr Murray may have been suggesting that my point on education was wrong. I am very happy that lots of school leavers go into further and higher education, but I am not so happy about the fact that lots of our school leavers leave without any qualifications. My point was about balance.

Dr Murray: I know, but my point was that much of the spend on school infrastructure will go through the private sector rather than directly through the public sector. The effect of that on jobs will not necessarily be visible now because we are in the early stages of the process.

Donald MacRae: There is all the more need, then, for a common base and some sort of comparative information over the years. That would allow us to see whether what you suggest will happen actually does happen in a year or two.

Ms Wendy Alexander (Paisley North) (Lab): I have three questions but I will restrict myself to the first two at this point. The first is on the data and the second is on total spending levels.

On the data, I compliment the author of the paper that we have received by saying that his recommendations get to the heart of the matter. I wholeheartedly agree with them. Although they are tactfully expressed, they could be considered a pretty weighty indictment of the lack of transparency and comparability in the budget. Two matters arise in particular. One concerns the absence of time-series data, to which this committee has consistently drawn attention. The other, on infrastructure, is perhaps more damning in the long run. If current spending is investing in today's priorities, and capital spending is investing in tomorrow's priorities, I do not see how we can make progress if we cannot get a sense of the extent of capital spending in Scotland—irrespective of the method of financing used, be it through the private finance initiative or whatever. The witnesses may want to comment on whether other parts of the United Kingdom are more successful than we are in striking a balance between capital and revenue spending and in providing time-series data. This committee has raised that issue consistently but has made little progress. I am sure that that absence of progress would greatly distress those who sat on the financial issues advisory group.

I note that the author of the paper sits on the Scottish Executive's economics advisory group and economics statistics group. It seems to me to be impossible for either of those groups to carry out their roles adequately if we have neither time-series data nor a true appreciation of the balance between capital and revenue spending in Scotland. This is really a plea to some of our expert advisers that in their various capacities they should raise such matters. Until we resolve them, it will not be possible to move the debate on and to discuss the priorities that we should be discussing. Do the witnesses believe that, through some of the expert forums, it will be possible to raise the data and presentation shortcomings?

Donald MacRae: I think you said that you had two points.

Ms Alexander: That was the first one.

Donald MacRae: It was tactfully expressed, so I guess that the next will be a real killer.

First, time-series data are very important. Coming fresh to this budget, I was surprised to find no real inter-year comparisons. Secondly, I defy anybody—including my colleague Peter Wood—to tell me the balance between capital and revenue spending. That balance is crucial and if I could achieve one thing by appearing here today, it would be getting that point across first, and the point on time-series data second. I now await the killer question.

Ms Alexander: I wish you luck in finding the answers, as we have failed on both counts so far. However, if pressure mounts from the various expert bodies, we might succeed by the end of the second session of the Parliament.

I want to ask about point 3 in your paper, which is on the budget, and point 4, which is on total spending. The committee has dwelt on the point that spending in Scotland has risen to 47 per cent—perhaps to 50 per cent—of gross domestic product. I would be grateful for guidance on this point. I want to consider comparability with the UK, although we do not yet have a finalised budget in Scotland. I take the point that, in so far as the Executive receives revenue from more than one source, it would be good if those sources of income were itemised separately in the budget. That seems to me to be the minimum step possible under the current constitutional settlement. We should itemise what comes from non-domestic rates, the Barnett formula and so on. In the UK context, when we talk about the scale of the public sector, we are usually talking about tax revenues—the total tax take—over GDP. The Government's reputation for prudence lies in that figure remaining below 40 per cent whereas, under the Conservatives, it was up to about 42 per cent. The measure is, in essence, tax revenue over GDP, and then we have to consider how much of that is current spending, debt or whatever.

The difficulty is that the figure that we are offered is spending in Scotland over Scottish GDP. It is therefore not directly comparable with the UK figure. In the UK, the debate is over whether the figure is 38, 39 or 40 per cent, and whether the figure was 42 per cent under the Tories. In Scotland, we have the opportunity to have two figures: the figure that has been presented to us, which is Scottish spending over GDP; and a figure that would usefully show the tax take in Scotland over GDP. I suggest that that figure would probably be lower than the UK figure, because, from the report "Government Expenditure and Revenue in Scotland" and elsewhere, it is possible to establish that, although we account for 10.5 per

cent of UK spending, we account for only 8.5 per cent of UK tax revenue. If we are to understand fully the budget in Scotland, it might be useful to have both those figures. Will the expert witnesses comment on that? Could they encourage the use of both figures?

Peter Wood: Wendy Alexander answered the question when she referred to the GERS report; the GERS data give us the answer. I know that aspects of GERS are contested by various people but the report provides the best estimate of the second magnitude—how much tax is raised in Scotland relative to Scottish GDP. Wendy Alexander is quite correct to say that the GERS data indicate that the level of tax raised in Scotland is less than in other parts of the UK. The reasons for that have been well debated.

Two issues arise. The reason why one would not find the tax figure in the Scottish budget is that the Scottish Parliament is not responsible for raising the taxes. A figure would therefore be included for information only, rather than as something that the Parliament was materially affecting. It is interesting to ask how much tax represents as a proportion of income, but the broader issue—how much of output is accounted for or controlled by public spending—is more interesting because we believe that it affects the shape and nature of our economy.

I mentioned that I do a lot of work in Northern Ireland. In recent decades, a major concern of the economic service in Northern Ireland has been the heavy dependency of the economy on public spending. There has been a feeling that a dynamic, outward looking and successful economy has to show a greater capability to generate its living, if you like, in the market and from the private sector. That is an issue to be debated. I do not wish to take a position on it, but how much of Scottish resources should be commanded or directed by public spending is a material question. Even if public spending creates business for private companies—of course it does; it does so all the time—the nature of the economy is changed if a large part of output is determined by public rather than market considerations.

There is a debate to be had about what the right level of public spending should be and what that implies for our economy. The simple and well-established fact is that public spending in Scotland, relative to population and GDP, is higher than in the UK as a whole and higher than in many other UK regions, even those that are relatively disadvantaged or peripheral. The question of whether that has shaped our economy and has had a good or bad effect on the dynamic in it needs to be addressed. Perhaps it should be addressed in the budgetary process. Is the process only about asking how much we spend on

bedpans, blackboards and computers for schools, or is it also about asking about the place of the public sector and its command over resources in our economy? Both aspects need to be addressed.

Donald MacRae: It is important to realise that there is a difference between the total tax take and the actual total of Government spending, which was discussed. We must be clear about that difference, because the figures are not the same. I am sure that committee members are all aware that about 10 days ago, a document was published that assessed whether Scotland—and the UK—was a high-tax economy. There are lots of data to show business taxes as a percentage of GDP and various other measures. The upshot of all those studies is that there are some countries—the United States and Ireland—where the tax take on business is less than that in Scotland and the UK; there are many other countries in which it is higher.

If one was being impartial—I suppose that I would like to be considered that—one would say that there is no evidence that Scotland or the UK is disadvantaged in business taxation as a percentage of GDP. However, if we were to consider the tax spend as a percentage of GDP, I could show you figures for many years that show that the Scottish economy has a higher dependence on the public sector and has higher public spending. That is a result of many years of change in the Scottish economy, the political settlement and the Barnett funding formula. I am not against a high level of public spending, but I would like a private sector that grows stronger and stronger, so that the percentage of the public sector appeared less. I could also show you figures relating to the weakish performance of the private sector in Scotland on innovation and research and development, which is sometimes crowded out by the level of research undertaken by universities—which are in the public sector—and Government.

Public spending as a percentage of the economy is an important indicator of not only the public sector's strength and influence but the private sector's weakness. I stress that I am not anti-public sector at all; I am suggesting only that the balance in Scotland is too high a dependence on the public sector and that the budget will increase that dependence. I am not saying that public spending should be reduced, but I would like private sector output to increase.

The Convener: The issue is not only the balance between private and public sector spending, but whether the public sector can be rebalanced in such a way as to stimulate more growth or greater responsiveness in the private sector. What does your scrutiny of the budget tell

you about that? What does it tell you about, for example, the increased spending on transport and health relative to that on economic development? Is that balance moving in the right or wrong direction? What emerges from your scrutiny?

10:45

Donald MacRae: My summary is that I am glad that some of the infrastructure barriers are being addressed in the budget. I notice that there are quite a lot of delays in spending some of the money, particularly on infrastructure, and I am concerned about that. I also point out that another measure of the economy—productivity—is particularly low in Scotland and the UK in comparison to other countries. Productivity applies equally to the public sector, and I did not see much mention of it in the draft budget.

I would need another meeting to answer the question on whether the balances are right. My personal view is that some change is needed. I would like more emphasis to be put on promoting and developing the private sector. In the longer term, that would produce a much more vibrant tax base and a higher tax take from which we could have higher public spending on health and other parts of the budget. That is a longer-term strategy. At the moment, we are in a short-term situation in which public spending is increasing rapidly in Scotland as a result of the Barnett formula but the private sector is fairly weak, which is creating the imbalance.

The Convener: Are you saying that we need a more strategic and graduated view of how we take the economy forward?

Donald MacRae: Yes.

Peter Wood: There are two dimensions to the budget. At one level, it is about procuring those services that need to be procured publicly rather than privately. There is general agreement about, broadly, what those services are, and the budget should be a way of procuring them in the most economical, efficient and effective manner. It should demonstrate value for money in the use of public money to procure services and goods for the public. The object of the exercise is not to spend money, but to deliver services to the public.

Whether the budget is supportive of economic development is a quite difficult question. Although I have drawn attention to some figures, the question does not reduce simply to asking, for example, "Spending on economic development has been cut back. Is that supportive or unsupportive of economic development?" That depends on whether the spending on economic development was useful in the first place, which is another question.

At the fundamental level, we might ask how public spending and the budget can contribute to the economy's success. It cannot do so primarily by providing a market for goods—the simple Keynesian approach. The economy's prosperity depends on productivity—the economy's supply capability. We become richer only by being more productive. The question really should be whether, in so far as the budget is directed towards economic activity or support to industry, it is directed in ways that will increase productivity—the ability of our people and businesses to produce. That argues for spending to be directed towards education—I mean education in the broadest sense: science, technology, research, development and so forth—rather than a subsidy culture or providing soft markets. Such an argument raises broad questions about economic development strategy, which are tackled to some degree in the budget documents. Public spending can make our economy more successful by making it more productive—that is, by encouraging the human investment, investment in knowledge and investment in capital that will make our businesses more successful.

Jim Mather (Highlands and Islands) (SNP): I am fascinated by what is being covered. I will make a number of observations. I am interested in which macro targets and objectives you would set if you were masterminding the Scottish economy. I am also keen to get some feedback from you on how acceptable it is that we lack comparative data at present. I imagine that the bank would be pretty intolerant of clients who had a lack of comparative data over time or who confused capital and revenue expenditure. Those are the important and pressing issues.

My key point is that, as well as having meaningful targets, we should have a clear mechanism that will start to reverse the existing process and trends. What clear targets would you put in place and what mechanisms would you like to see to reverse the trends that we face at present?

Donald MacRae: Is that question aimed at me?

The Convener: You can have first shot at answering it.

Donald MacRae: I will have to disappoint Jim Mather—I cannot produce a master plan with targets for the Scottish economy in a matter of seconds. However, I can say that the present plan has too many targets because I cannot decipher from them what is and what is not prioritised. I will pick out one target, although I ask people not to take any meaning from the fact that I have chosen this one. Target 8 under objective 6 on pages 59 and 60 of the draft budget is:

“By 2006, increase the number of Scots achieving

success in key sports and events from the position in 2000.”

I am an avid supporter of the Scotland football team, but I do not support that target. Does it mean that we must beat certain teams? That answers the question partly and by exception. To answer the second part of your question, the lack of inter-year comparisons is not acceptable and I argue strongly that such comparisons should be achieved. It should not be difficult to restate previous years' budgets using a suitable methodology.

In my day job, I use the balanced-scorecard approach to assess business areas within my business using no more than 12 to 20 measures, which are by no means all financial. The measures are robust and reflect short, medium and long-term issues, and we can ensure that the relevant information is collected. Targets are important, but behaviour changes when one starts to measure something—a certain amount of target chasing can be induced if the target is not set properly and is not long term enough.

I would love to be able to provide a master plan for the Scottish economy today, but, obviously, I cannot. However, I can say that the draft budget contains too many targets and that the targets are unclear, which makes it difficult to tease out the priorities. Peter Wood pointed out that half of the overall increase in the budget was for health matters. However, he had to tease out that point; it did not jump out of the draft budget.

You asked me a huge question and I hope that my comments have been helpful. I would love to be able to contribute more to the answer at some point.

Peter Wood: The issue might be that some information is in the wrong place. I understand why sportscotland might want a set of detailed targets because it has a wide range of activities to control and manage. However, the incorporation of those targets into the draft budget produces the effect that we have talked about—we are drowned in a sea of figures and indicators and it is not clear which are more important, which are less important, which are strategic or which are operational. The draft budget should focus more on major strategic priorities; it should make clear the top-level priorities and objectives. That is a comment on the way in which the data are presented, although it may seem churlish.

We did not quite finish with the point about the consistency of data over the years. It is difficult to follow the information. I sat down with the statements from Wales and Northern Ireland and with this draft budget and last year's one to try to produce nice, neat comparisons. I produced some figures, but it was a bit of a struggle and I am not

absolutely sure that the figures are right. The data are presented inconsistently and different terminology is used. I appreciate that the figures change from year to year because outturn turns out to be different from what was planned, but the inconsistency makes the process complex and comparison difficult.

Detailed comparisons can be made, but they require a lot of work. I will mention a couple of brief examples. Last year, I carried out a study for the Northern Ireland Office to examine whether expenditure on social housing in Northern Ireland in the past 10 years had produced value for money. The study involved comparisons with England, Scotland and Wales. A great deal of work was required just to produce simple comparisons on mundane matters such as spend per house and cost per unit constructed. The difficulty arose because of a lack of consistency and clarity in the presentation of the data between jurisdictions within the UK and from year to year in the same areas.

Many years ago, we conducted a major exercise for a former Administration to compare local government spending in Scotland and England. That was phenomenally difficult and involved weeks of work to produce what seemed, at the end of the day, to be simple comparisons. A huge amount of work was required because we lacked consistent presentation of the data.

I agree with Donald MacRae's criticism: the presentation of the draft budget means that it is difficult to make year-to-year comparisons with confidence. The issue of capital spending versus revenue spending is another aspect, but only one. It would be good to be able to examine meaningful time series and to understand the trends with confidence.

John Swinburne (Central Scotland) (SSCUP): The problem in which I am interested has not been mentioned. We have an aging population—a quarter of a million people of my generation live below the Government's poverty level—but nothing in the draft budget allows me to tell those people that things will improve. I assure members that, under the present set-up, the situation can only get worse because, as people retire in greater numbers, the pressure on the Executive to accommodate the increase will be tremendous. I am disappointed that, in the witnesses' interesting addresses to us, they did not mention that problem, which is increasing. I do not know how we will improve the situation.

Donald MacRae: I am delighted that you have mentioned the problem; I was going to do so, but I did not. Personally, I believe that Scotland has a demographic issue. The number of deaths every year in Scotland exceeds the number of births by about 3,000, which is not healthy. The population

is getting greyer and older—as members can see from my head. My answer to the problem is simple: I do not intend to give up working at 60 or 65; instead I will carry on. I think that the demographic problem of aging has been exaggerated. It will be solved by people working harder and longer.

Professor Arthur Midwinter (Adviser): I intend to go at 60. *[Laughter.]*

Donald MacRae: Humour apart, my suggestion is a serious contribution to the demographic problem. People will have to work for longer.

I do not have a solution to the more problematic population issues of the rates of births and deaths and of people leaving Scotland. I am delighted that the Scottish Executive has introduced its fresh talent initiative, but we must do more on that issue. It is hard to think of quick solutions, but my answer is that we will all have to work for longer.

Ms Alexander: The data inadequacies have had a thorough airing. It is encouraging that the discussion has moved on to what the priorities might be. I would like to encourage our witnesses to help us to strengthen the treasury function of the committee and the budget that it scrutinises. By that I mean that the overriding key to stimulating growth in the private sector is the supply capability of the economy—as has been alluded to. That is not the responsibility of any one ministry of the Executive but has implications for every spending budget. Therefore, by definition, it must be the committee's responsibility to scrutinise that matter. I notice reluctance among committee members and advisers to move into the territory of priorities, but the issue is not solely the property of the Enterprise and Culture Committee or any other committee. Similarly, if the objective in the public sector is to raise its productivity and perhaps strengthen its competitiveness, it seems to me that the budget should say more about the efficiency function of the 50 per cent of spending that the public sector accounts for.

To what extent do our witnesses think that the budget process should become more involved in priorities and have its treasury function strengthened to enable recommendations to be made about the supply capability of the economy and the efficiency function of the public sector?

11:00

The Convener: Before our witnesses answer, I should say that we are considering having an inquiry into the economy and economic development, which might provide us with an opportunity to deal with some of those issues.

Peter Wood: I agree with what Wendy Alexander says, but I think that we should be

aware of some tensions that exist and ask what the budget is for. There is a tension between the suggestion that we should spend in ways that will stimulate and benefit the economy and the idea that we should procure services at best value. Moving away from Scottish areas of responsibility for a moment, the area of defence is a classic example of that tension. The military always wants to buy the cheapest aircraft, tank or boat that is available—which is probably made by the Americans—because that way, it will get more for its money. At the same time, the British Government wants the military to buy a British item, which might be 50 per cent more expensive, because that will be good for British industry. Is our budget process about procuring the goods and services required by the population at the best price—that is to say, is it a great purchasing department for the nation that buys things as cheaply as possible?—or is it a practical tool that affects the development of the economy?

Those tensions exist and one has to be clear about them if one is not to get into an awful guddle. We need to separate our purposes in relation to the budget. Where we are concerned with buying things, we should buy them as cheaply as possible and where we are concerned with spending money to promote productivity and knowledge and increase the capability of the economy, we should be clear about that.

People say that the budget is a political process and is part of political decision making, but I think that we should say that we will limit our spending to a healthy level—say, 40 per cent or whatever of the national economic cake—and then decide how we can best deliver within that budget. There should be a more explicit statement of how much of the national economic cake will be spent on public services. We should be upfront about that rather than let the amount gradually grow without clarity.

Once a clear statement has been made about how much will be spent, there should be a clear statement about what we will procure with that expenditure. There should be high-level targets relating to what we intend to buy and the results that we hope to achieve.

Of course, there will be various views about how big the slice of cake that is spent on public services should be, but that is what political argument is about.

Professor Midwinter: There is a lot of discussion about spending and percentages of GDP but it is important that members are clear about the fact that, when we talk about spending, we are talking not only about the Scottish budget but about all public spending in Scotland, of which about half is by the UK Government. The biggest part of the money that is spent by the UK

Government in Scotland relates to social security spending. I do not think that this committee should get too hung up on the proportion of spending as a proportion of GDP because that is not something on which this committee can have a great degree of influence.

To bring the committee up to date, I should say that I have met officials and we hope that we will be able to come back to the committee with a timetable. The situation is more problematic than we imagined because there are three years of different resource account budgeting price bases plus one year of cash, all of which have to be calculated by hand. The officials have gone off to talk to their masters and I hope that we will come back to the committee with something that everyone can live with.

On the question of outputs, Donald MacRae said that it was more important to focus on outcomes than to focus on outputs and Peter Wood talked about the documentation in other devolved Administrations. In the previous session, the Finance Committee's report on its inquiry into measuring outcomes was fairly pessimistic about the scope for progress. I agree that the bulk of the micro-targets are output measures rather than outcomes, but I would like to know whether either of our witnesses knows of any model in which outcomes are used as targets. I do not know of one. If we are to make progress, we need to have something on which to hang our efforts. Could Peter Wood say whether the Northern Irish or Welsh targets are better than ours in terms of using outcomes rather than outputs?

Peter Wood: The short answer is that they are not.

It is a fair response to criticism to say that if someone says that you should do better they should be able to say exactly how you should do better. When considering public spending, there is always difficulty in measuring outputs, to some degree, and outcomes, to an even greater degree. However, if we examine areas in which specific studies have been done on value for money—housing, for example—we can make some progress.

I do not want to carp about the measures that have been used in the document but I reiterate the point that there are too many targets and that they are too detailed. Even if we can express matters only in qualitative terms or talk simply about making progress towards an end, we should nevertheless try to focus on meaningful magnitudes and make the focus narrower. As I said, there are so many targets in the document that it is hard to tell what is important and what is not.

On particular levels of spending, I suggest that, if spending is being increased a lot, specific attention should be paid to that point in the document. I am not having a go at sportscotland, but its budget will be tripled, bringing it to five times what it was a few years ago—which I can well believe is a necessary increase—but the document does not tell us why that should be so or why it is important. Similarly, I cannot tell from the document why central spending on teachers is going to increase fivefold. I am sure that there is a good reason for that, but the document does not tell me what that might be.

At the very least, the document should inform the reader what such great increases in spending will be spent on and what that spending is expected to achieve. As a customer and a member of the public, I would like to know that information. At present, there is a plethora of targets relating to Gaelic-medium education, allowing people to stay in work and so on and not enough information on where the money is going and which areas of expenditure are going to increase.

Donald MacRae: I am not entirely in agreement with Professor Midwinter when he says that, because the Parliament is responsible for only roughly half of the public spending in Scotland, the committee should not get too hung up about public spending as a percentage of GDP. The fact that that is the situation under the current settlement should not detract from the importance of monitoring that area.

At the moment, the budget is a series of spending plans and does not take an investment view. It needs to avoid the silo approach, which is evident throughout the document, with everyone having their own set of targets.

I have been asked what I would do instead, but I do not have an immediate answer. I can tell members that there are too many targets and priorities and that fewer would be better.

In case anyone took exception to my singling out one particular indicator earlier, I should say that I would be absolutely delighted if Scotland qualified for the European championship. I have nothing against the thought behind the target that I mentioned, but I believe that it shows the difficulty of setting out good, reliable, robust and repeatable targets and measures.

The Convener: I will try to draw the discussion to a conclusion in around five minutes.

Jeremy Purvis: I want to tease out more information about the quality of the information that is provided to us and about how a £22 billion budget would be managed from the perspective of the private sector.

We have been fairly critical of the information that is provided to us, but on schools, the draft budget document states in black and white that commitments are being taken on as a result of the agreement in "A Teaching Profession for the 21st Century". Those are included in the document.

Donald MacRae said that there are between 12 and 20 measures in each division for which he is responsible; there is an equivalent number for each Executive department or section in the budget. For example, in respect of communities, objective 1 has three targets:

"By 2006, increase the supply and quality of Scotland's housing stock by approving 18,000 new and improved homes for social rent and low-cost home ownership ... reduce the number of houses with poor energy efficiency ... Improve the quality of Scotland's housing, through the setting of a new Scottish Social Housing Standard by the end of 2003 and through measures to encourage owners, including private landlords, to ensure their properties are in good condition."

Those targets are straightforward. The table in the budget document shows an increase in real terms and we can chase the money so that the Government can be held to account for it.

I do not understand the difficulty. If the number of targets in the document is reduced, the committee's job of holding the Executive to account on productivity in the public sector will be much harder. What would the private sector do differently? How would it present such a document?

Peter Wood: Donald MacRae and I are not arguing against having targets. I have not said that there are no good targets in the document—some targets relating to housing, for example, are clearer than targets in other areas.

You have drawn attention to a couple of quantitative targets. However, further down the page, there is an objective to

"reduce the number of households becoming homeless more than once in a year."

By how much should the number of households becoming homeless be reduced? The targets are not equally well expressed—some are well expressed, but some are not as well expressed. On the point about education, I did not understand what the words meant—perhaps that was my problem.

We are not arguing against targets; we are saying that targets are needed, but we are concerned that the document has so many of them that it is hard to know which things are truly important and which targets the Executive will be judged by. When one gets down to running an individual department—a department of state or a non-departmental public body—of course more detailed targets are needed. I have been involved

in target setting for public sector projects and there is always an element of cascading. Certain matters are discussed at a high level, but there will be a different set of targets down at a team or project level. One does not make one's overall strategic target simply the arithmetic aggregation of all the targets of individual teams, but the document tends to lean in that direction. I am not suggesting that every target in the document is poor or is poorly expressed. Some targets are clear, but I am afraid that other targets are much less clear.

The Convener: Two members want to ask questions. The witnesses should answer one question each.

Jim Mather: We are repeatedly told about the difficulty of producing meaningful targets and comparative data, but in the business world, most businesses and boards seem to be able to manage pretty tightly with numbers that are targets and that can be benchmarks—they manage with numbers relating to turnover, market share, net profits and share prices, for example. Are you surprised that the Government cannot manage on a similar macro level? Firm targets for growth could be compared with targets in comparable countries and in other parts of the UK. Population movements and life expectancy are key measurements. Perhaps Government could drill down by income group and simply stop at that point. Effectiveness is measured by those key measurements.

Mr Brocklebank: The committee should be indebted to Peter Wood for identifying differentials in areas of spending by scrutinising the overall budget. I was intrigued to learn that around £1,400 or £1,500 per person in Scotland goes on health, which is an issue that we are obviously concerned about. Health spending is a considerable priority. However, as Peter Wood pointed out, more than 52 per cent of the increase in spending that the budget identifies is going towards health at a time when we are all saying that we are extremely concerned about the state of the Scottish economy and some £120 per person in Scotland is being spent on economic development. If I picked Mr Wood up correctly, that amount is less than is being spent in Wales and Ireland. Does that represent a failure by the Executive to recognise the deep-seated problems of the Scottish economy?

11:15

The Convener: It would be useful if, in responding, each witness raised any final points that they want to make.

Peter Wood: I will be evasive and not judge whether the spending is right. I have tried to show

how the public spending cake is divided up, which is useful. What is a lot of money spent on? What is less money spent on? Is the balance right? We should ask ourselves such questions.

Everybody is in favour of spending on health. All of us fear that we will need health services, but that they will not be there. In Scotland, there is a relatively high level of spending on health care—such spending is higher than in other parts of the UK. By some measures, we are almost at the famous European levels to which Mr Blair referred some years ago. That is where the bulk of our further spending will be put. I am not making a judgment about whether that is the right decision, but a question needs to be asked: is it the major priority?

The budget should recognise that we do not have unlimited resources. There should be a decision about whether spending can be increased by a certain amount or that there will be a certain resource budget and a decision about what that budget will go on. I will not answer the question that I have been asked by saying that the balance is wrong and that a little should be shaved off health and more should be given to economic development. I am merely saying that questions should be asked and that they require investigation and should be debated.

There should be no assumption that the structure of spending is right. Should more be spent in areas in which a lot is spent? Are there areas in which much less is being spent than in other areas and in which more could beneficially be spent? The budget should provide a forum to debate and determine the answers to such questions.

Donald MacRae: I will be brief. I apologise if I have appeared too critical in my written and oral evidence, but I have concentrated on areas in which I think there must be change. It goes without saying that I have not felt the need to comment on many other areas on which I would congratulate the authors of the budget document. The committee will understand why I have concentrated on areas in which I think changes are needed.

On what Jim Mather and Jeremy Purvis have said, my business might have 12 to 20 indicators for one business area, but there might be 12 to 20 indicators for the whole business. It is a matter of horses for courses. At a certain level in part of the Government's spend, there might be a raft of indicators, but it is important to get an overall view, which is missing from the draft budget.

On what Ted Brocklebank said, there should be more emphasis on economic development. The document is a spending document rather than a plan for Scotland's future that outlines investment

in the medium and long term, which is what I would like to see. It might not be necessary to spend more on something to achieve a result—something could be taxed less. I am aware that there has been work on a report in England and Wales on the possibility of a local income tax. The private sector could be encouraged not by spending more on it, but through less taxation. There are two ways to look at the matter.

I thank the committee for the opportunity to comment, but ask it not to think that my views are all negative. I have concentrated on areas in which I think change is required.

The Convener: I think that all members of the committee found the evidence from both of you useful. We hope to incorporate some of your ideas in our consideration of the budget. They have also given us food for thought on the broader agenda that the committee might want to pursue in its future inquiries. I thank the witnesses for attending the meeting.

Scottish Parliament Building Project

11:20

The Convener: The second item on our agenda is consideration of October's monthly report on all correspondence that we have received relating to the Holyrood project since we considered it on 23 September. Members have before them a copy of the monthly report that was issued on 23 October together with a letter from Paul Grice that is dated 27 October, which supplies us with additional information. Members also have a short paper from the clerk on the building project. I give members the opportunity to discuss any issues arising specifically from either the October report or the correspondence dated 27 October and I seek the committee's agreement on how it wants to act on those issues.

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP): It is gratifying to see that the monthly report indicates that no cost increase is predicted and that there has been no further slippage in the predicted completion date. However, that optimistic view seems to be open to question, particularly in relation to the completion date. I hope that, as has been our practice, we will have the usual witnesses here before us.

I am especially concerned about the impact that any slippage would have in terms of the extra costs that would result from an extension of the estimated six-month double-running period. I am also concerned about this institution as a whole. If there is any further slippage, we will all suffer—rightly or wrongly. The Parliament building was supposed to have been completed by July 2001. The completion date then slipped to 2002 and 2003. The target is now July 2004.

I was concerned to read the recent press reports on the building, especially one by an individual reporter who spent about a week under cover and wrote about his experience. He and the workers on the site to whom he spoke did not feel that July 2004 was a realistic completion date. He also made the pretty serious allegations that materials were routinely thrown away, that money was wasted and that work was re-done unnecessarily. That graphic, first-hand account has raised significant questions. I would like the opportunity, as has been our practice, to raise some of those questions with the project director and the chief executive—who has overall responsibility—to fasten down how confident they are about the costs and the completion date of 2004.

The last thing that we want is any further increase in cost or any further delay. The witnesses might be able to address those concerns, but the committee would not be doing

its duty if we decided that because, on the face of it, the information that we have received appears to give comfort, we should simply accept it without asking the individuals who are responsible to come before us and face any questions that members might have. The timing of such a meeting is a matter for the committee to discuss, but I hope that it will take place as soon as possible. Members will agree that there are questions that we need to ask if the committee is to discharge its function.

Kate Maclean (Dundee West) (Lab): I have no objection to our holding another evidence session; however, the report shows that there have been no significant changes that the committee would want to ask about. I do not know what newspaper article Fergus Ewing is referring to—I have not read it. I would be concerned if we were to start to hold evidence sessions on the basis of journalists' undercover activities. I would be happy for us to hold another evidence session at any time, but I would be worried if that was what led us to such an evidence session. Perhaps there will be an opportunity for members to get copies of the newspaper article to which Fergus Ewing refers—I do not know whether the clerks have access to it—but I would advise caution.

Jeremy Purvis: My view is similar to Kate Maclean's. We are asked to consider evidence that has been presented to us. If Fergus Ewing has other evidence, he should have presented it to the clerk to be circulated among the members of the committee. It is rather disrespectful to other committee members for Fergus Ewing to move that we should call witnesses to give evidence on an article that we have not seen or been provided with.

Fergus Ewing: We all read the newspapers. Jeremy Purvis is entitled to read them.

Jeremy Purvis: Well, they are not among the committee's papers, which are what the agenda asks us to consider.

Fergus Ewing: It is not my function to provide committee members with copies of newspapers. We all have a duty to read what is in the news, and I have done so. Serious questions have been raised by several people, and I would like to have the opportunity to question the accountable people. I sincerely hope that members are not suggesting that we do not call them before us to put questions to them, as there is no other method of holding those individuals to account within the Parliament. There is no question time on Holyrood, and there is no other means—other than written questions—by which we can hold those individuals to account. I hope that no one is seriously suggesting that we abandon the move to bring the officials before us for a short period to answer our questions.

Kate Maclean: I am sorry, but I thought that it was obvious from what I said that I have absolutely no objection to our holding evidence sessions on this issue. Fergus Ewing should not try to give the impression that he is the only member who wants to hold people to account for this. That is not the case.

The Convener: Has Jeremy Purvis finished what he wanted to say?

Jeremy Purvis: Yes, I have. I am happy to consider any evidence that is presented to us in the papers for the committee. However, ad hoc press reports are not a reliable basis on which to make informed decisions about how we act on the matter.

Mr Brocklebank: I read the article to which Fergus Ewing referred. It is in the public domain. It was a fairly major article in the *Scottish Daily Mail*. Whether members of the committee believe that the *Scottish Daily Mail* is a reputable newspaper does not really matter; the fact is that the article is in the public domain. Some of the criticisms that were made are extremely serious allegations about what appears to be going on at the Holyrood site, and it could be argued that the article should have been presented to the committee.

I certainly feel that we should take every opportunity that is available to question officials, as we have done in the past. That practice should continue. My only reservation is based on simple humanitarian grounds. The officials are under extreme pressure at the moment because of the amount of work that they have to do and the fact that they appear to be at the beck and call of a great many different groups that require their judgment.

Because the written information that we have received this month does not show any recognisable increase in costs, I wonder whether we could excuse the officials for a month and delay calling them before the committee. My suggestion is that we get back to them a month from now, when we will perhaps have more evidence to present to them.

John Swinburne: Basically, we are looking at a bureaucratic catastrophe—there is no other expression for it. I lodged a question this morning about something that just occurred to me: what is the insurance cost for the building going to be? The insurance was originally going to cover a building costing £40 million, but that figure has now risen tenfold. If the building will now cost 10 times as much, the insurance cost will have escalated as well. That is one of the hidden costs that will come to light in the fullness of time.

I look at the project and ask, "Who is running it? Who is in charge of it?" It is being done in our names. I echo what Fergus Ewing said: the sooner

that it is completed, the better. However, we should not hold our breath for 1 July 2004.

Dr Murray: I support what Ted Brocklebank suggests. There is a balance to be struck between holding people to account and allowing them to get on with the job. We all agree that any further delay would cost more money and be detrimental. I do not think that there is anything specific to query in the committee papers. I do not read the *Scottish Daily Mail*, so I have not read the article and do not know how reputable it is.

If we are going to start taking evidence on the basis of newspaper reports, perhaps we should bring the journalists and the editors in so that we can quiz them on their comments, although I do not think that that is the committee's business. Ted Brocklebank is right—it might be worth delaying another evidence session until next month, when we would be able to track progress over a couple of months.

11:30

The Convener: Every member has had an opportunity to speak except Jim Mather.

Jim Mather: I wonder about the signal that we will give if we take a lackadaisical approach. If the market exists, we must be seen to react to it, even if only to check that the Scottish Parliamentary Corporate Body is reacting to it.

Kate Maclean: As a compromise, would it be possible to ask the project team to respond in writing to the specific points in the article? That would enable us to make a decision on whether we want to take evidence in more depth on the specific allegations that were made in the *Scottish Daily Mail*. Newspapers' undercover operations are not always the best way in which to get information. I worry that, if we respond to every such incident, we could be taking evidence for ever on the basis of what might be just rumour. I do not know whether we have the names of the people who commented on the Holyrood site in the article; I presume that we do not. If members are concerned about any specific points when they read the article, the convener could write to Paul Grice and we could make a decision based on his response.

Jeremy Purvis: I support Kate Maclean's compromise. In the past, the clerk has asked all members to put forward suggestions for questions and we have written to the Parliament's chief executive. I have been happy to suggest questions. Why do we not do that?

Kate Maclean: If the clerks circulate a copy of the article, that will allow all members to read it before we make suggestions for questions.

The Convener: That is possible.

John Swinburne: I did not know the meaning of the phrase "empty rhetoric" until I joined the Finance Committee. If we are to be subjected to another session on the Holyrood project, can we limit the witnesses to providing short answers—such as "Yes", "No", or "I don't know"—rather than allow them to give 10 minutes of empty rhetoric?

The Convener: We have had a fair bat at the subject. In my view, we have two options. We can invite the witnesses next week or the week after to question them on October's monthly report and on other issues that relate specifically to it, or we can write to the corporate body to highlight some of the issues that members have raised today and to say that we will pursue those issues at the first meeting after production of the next report. We anticipate that that would be at the end of November. The real choice is between next week or the week after, and two weeks hence. That is a managerial issue for the committee.

Fergus Ewing: The week after would be two weeks hence.

The Convener: Next week is the first occasion on which we could consider the matter. I meant two weeks after the week after next week, which would be three weeks from next week. Depending on the availability of witnesses, the choice would be between 4 November and 11 November, and 25 November, which is when I would expect the next report to be available.

There is one other issue that we have not dealt with. The fourth paragraph in the clerk's paper states:

"the Holyrood Progress Group has been canvassing MSPs' opinions as to whether or not question and answer sessions on the Holyrood project should continue."

A member has contacted me to say that they are not happy with that proposal. Given the Finance Committee's scrutiny process, we might want to take a view—perhaps not immediately—on whether it is appropriate to discontinue the question-and-answer sessions. That would allow us to address some of the points that Fergus Ewing made about the perception of scrutiny of the project.

John Swinburne: It is essential that the question-and-answer sessions be continued with, but I re-emphasise my point about the need to place a time restriction on responses, to ensure that they are intelligent, articulate and brief; I have more things to do with my time.

Fergus Ewing: It is important that the limited opportunity that exists for Parliament to hold to account the people who are legally responsible for the management and finances of the Holyrood project should continue. Given the committee's remit, it would be wholly wrong for us to decide to express a view that question-and-answer sessions

with the Holyrood progress group should cease. That would be incompatible with our duty to scrutinise. I hope that there will be fewer serious questions to be asked as time goes on, although that is not an argument for scrapping the extremely limited mechanisms for holding the authorities to account.

I finish on the thought that, if Parliament had made more effort to introduce methods of scrutiny at the outset—for example, by having a Holyrood question time, which I suggested—some of the serious questions might have been asked early enough for a difference to have been made. I made that suggestion to the first Presiding Officer. He rejected it on the ground that we could ask written questions, but he then refused to answer a series of written questions that I lodged earlier this year. It is not Parliament's business to dismantle the limited accountability options that exist; we must cherish and use them. If members are saying that there are fewer serious questions to ask, I sincerely hope that they are right.

I am slightly surprised that Ted Brocklebank did not declare a possible interest—I read his excellent piece in today's *Scottish Daily Mail* and I echo his comments about that paper. We should take seriously the fact that a journalist has gone undercover and produced a report. We should not in any way belittle the efforts of journalists in trying to bring out at first hand—rather than in an office or a committee room—the truth about what is happening at Holyrood. That is what the public want and that is what we should be about, as well.

Mr Brocklebank: Modesty prevents my advocating that committee members read the *Scottish Daily Mail*.

I am a trifle concerned that members of other groups appear not to get press cuttings daily. For good political reasons, I choose not to read *The Guardian*, but I am always interested in seeing the cuttings from it that come round our group. It is not much of a defence to ignore what the *Scottish Daily Mail* says on the ground that one would not choose to read such a Tory rag.

On Fergus Ewing's substantive point, it would be appalling if the committee were to withdraw from its regular questioning of the corporate body on progress at Holyrood—he is absolutely right.

The Convener: No one is suggesting that. We are talking about the Holyrood progress group's formal question-and-answer sessions in the chamber.

Mr Brocklebank: Oh, I see.

Jeremy Purvis: I hope that we will not spend much longer on the present item. The convener suggested two good options; my preference is for the second. We should make a decision now and

move on to more important issues than who reads what newspapers.

Dr Murray: On the question-and-answer sessions for MSPs, the progress group was slightly concerned about the level of attendance. It might be that the timing of the sessions has not enabled good attendance, or there might be a problem with advertising them. If it is our view that the question-and-answer sessions should continue, we should suggest to the progress group that more effort be put into ensuring that MSPs know that the sessions are on, and into ensuring that they take place when people are able to attend.

Members indicated agreement.

The Convener: I see members nodding in agreement with that suggestion—I think that there is consensus that we want the sessions to continue.

Two propositions on taking evidence were made: Ted Brocklebank's proposition was that we take oral evidence on or about 25 November, after the next report is issued; Fergus Ewing would prefer that we take evidence on 4 or 11 November. Do we want to vote on that or can we reach consensus?

Jeremy Purvis: Did you say that it was open to you to write to the chief executive in the meantime to raise any issues on which Fergus Ewing or other members want clarification?

The Convener: Yes. If members agree, I would be willing to write to highlight the concerns that have been identified and to make it clear that we will take evidence.

Fergus Ewing: I would prefer to proceed with a vote. Those involved should come to the committee as quickly as possible. That is what I understood George Reid to be suggesting when he introduced a monthly, rather than quarterly, report. If we had had a monthly report from the beginning, we might be in a different situation. The session next week might be short and we might not have as many questions and issues to raise as we have had on the previous two occasions, but that is no reason not to hold witnesses to account. The readers of all newspapers in Scotland would be surprised if the committee decided not to call people to ask them our own questions, which are not filtered through another source.

The Convener: We have a difference of opinion. Who is in favour of our accepting Ted Brocklebank's suggestion that we defer oral evidence until 25 November or some date near then?

Mr Brocklebank indicated agreement.

Kate Maclean indicated agreement.

Dr Murray *indicated agreement.*

Jeremy Purvis *indicated agreement.*

The Convener *indicated agreement.*

The Convener: Who is in favour of Fergus Ewing's suggestion?

Fergus Ewing *indicated agreement.*

Jim Mather *indicated agreement.*

John Swinburne *indicated agreement.*

The Convener: We will take evidence on 25 November.

Fergus Ewing: One other matter arises from the Fraser inquiry and from comments in George Reid's letter. It relates to expenditure that many of us consider to be part of the Holyrood expenditure—the £770,000 cost thus far of the film that is being made about the Holyrood project. I raise that because, under paragraph (d) of its remit, the committee has as a responsibility

"any ... matter relating to ... expenditure of the Scottish Administration or other expenditure".

The £770,000 was provided in part by the BBC and in part by Scottish Arts Council and Scottish Screen grants. The first grant from the Arts Council was made in January 1999 and was for nearly £187,000, and subsequent grants have been issued. I understand that John McCormick of the BBC and Steve McIntyre of Scottish Screen are in discussions about a further £50,000 grant on top of the £770,000.

Before any further expenditure is handed over by any quango for which the Scottish Executive has overall responsibility, we should find out whether we are getting value for money. I understand that tape rather than film is being used and that the cost so far works out at £20,000 per hour. There seems to have been a complete lack of democratic scrutiny.

I am also interested to know whether the contract for the programme was put out to tender. Were any other film companies in Scotland, some of which have acknowledged track records and expertise in producing documentaries about architecture—I will not mention names, because that might be invidious—given the opportunity to bid or to be considered for producing the programme when it was commissioned in 1998 or 1999?

I know that £50,000 may not seem to be a lot of money compared with our earlier discussions about the £23 billion in the Scottish budget, but there is a case for the committee's considering issues that are of public concern, one of which is the matter that I just described. I am keen for the committee to invite those who are involved in the film to give a detailed explanation of how £770,000

has been spent and why the programme is apparently twice over budget. If another £50,000 is being sought, what is it for? Will that be the last application for a cheque, or will more public money—for which we have overall responsibility—be applied for? I believe that the film is to be called "The Gathering Place". As its costs appear to be rising out of control, is the film beginning to become a mini parallel Holyrood project?

11:45

Mr Brocklebank: I am not sure whether the committee has competence to deal with those matters—I do not doubt that the convener will rule on that in due course. However, I echo much of what Fergus Ewing said. The fact that the documentary appears to have spiralled out of all budgetary control has been an extreme concern of mine for several months. I discussed with a clerk at an earlier stage whether the committee should examine the matter, but as I received no response, I assumed that it was not within the committee's competence.

To a lesser extent, I am concerned about the method of commissioning the project, over which question marks hang, but—like Fergus Ewing—I am gravely concerned about the cost. He talked about costs' having doubled, but I understand that the original budget for the project was £190,000—under £200,000. If the latest increase from Scottish Screen is obtained or if more public money is given to the project, we could be looking at £800,000 or £850,000 for a programme that is to be screened only in Scotland. That would be a grave misuse of public money and somebody, somewhere—whether this committee or another body—should be concerned about that.

The Convener: If a retrospective question of abuse of public money is involved, that is clearly a matter for the Audit Committee rather than for the Finance Committee. Fergus Ewing talked about a request for an additional £50,000; I suggest that I write appropriate letters to seek additional information about the facts. I will send the responses to committee members, who can consider how best to proceed in that context.

Fergus Ewing: I thank the convener for that response. Could the points that Ted Brocklebank and I made be put to Steve McIntyre and John McCormick, to elicit their responses?

The Convener: In the first instance, I expect to write to the Minister for Finance and Public Services to seek information, but I will discuss with Fergus Ewing the appropriate mechanisms for what has been suggested.

Dr Murray: The board of Scottish Screen is accountable. I suspect that if the convener writes to the Minister for Finance and Public Services,

the minister will reply that the Executive has no direct control over Scottish Screen. An inquiry should probably be directed to Scottish Screen.

The Convener: That is why I want to seek advice about the most appropriate routes.

Fergus Ewing: Dr Elaine Murray is correct to say that the Minister for Finance and Public Services does not have the power to step in and to make individual decisions for Scottish Screen, because—as I understand it, although I could be wrong—the minister has no power of intervention or direction. However, having read Scottish Screen's annual reports and papers, I think that the Scottish Executive has overall responsibility and some powers to approve Scottish Screen's overall plan. That means that a clear locus exists.

I suspect that if we write to the Minister for Finance and Public Services, we will be told merely that the matter is not up to him. Therefore, in the interests of clarity, I ask that we write to Scottish Screen's chief executive and to Mr McCormick, as well as to the Minister for Finance and Public Services. The other reason for doing so is that if we do not act quickly, I suspect that the quango, the BBC or a mixture of the two will just hand over £50,000. It will then be too late to do anything about the matter, despite the concerns that members have expressed. It is reasonable to write to all three bodies to seek information on their views and roles.

The Convener: We can raise with the Minister for Finance and Public Services the issue of the £50,000, because that money would come from the consolidated fund. I would like to have the opportunity to discuss the matter with the Audit Committee's convener, to identify the locus of different committees in proceeding with the issue.

I undertake to seek the appropriate information and to put it before the committee as quickly as possible.

Petition

Scottish Natural Heritage (Relocation of Headquarters) (PE670)

11:50

The Convener: Agenda item 3 is consideration of petition PE670, from the Public and Commercial Services Union, which calls on the Scottish Parliament to investigate the Scottish Executive's decision to relocate the headquarters of Scottish Natural Heritage to Inverness. Members have a note from the clerk that details the options that the committee needs to consider in relation to the petition. They also have a copy of the petition, a letter on relocation issues written to the Deputy Minister for Finance and Public Services on behalf of the committee on 17 September, and his reply of 13 October. We also have the Scottish Parliament information centre's briefing note, which the committee requested after our discussion on the relocation at our meeting on 9 September. Members will have received by e-mail on 27 October copies of the correspondence between the Public Petitions Committee and Allan Wilson, the Deputy Minister for Environment and Rural Development.

As stated in the clerk's note, and in line with recommendations from the Conveners Group, the committee needs to agree whether to accept the referral of the petition, to refer the petition back to the Public Petitions Committee for further consideration or to agree that the petition should not be considered. Before I invite comments from members I point out that we will have two options if the committee decides to accept the referral: we could ask the deputy minister to give evidence to the committee immediately on the basis of the information that we already have; alternatively, we could decide to appoint a couple of reporters to do additional work to clarify the issues and, when that work is complete and in the context of wider consideration of relocation, we could invite the minister or deputy minister to provide evidence. I invite comments from members.

Kate Maclean: We should agree to accept the referral because many questions need to be answered. We had a discussion a few weeks ago, towards the beginning of the session, about the relocation of such jobs; everyone was concerned that the Scottish Executive's criteria were not being adhered to. We should accept the referral, appoint reporters and leave the question until we have done more research into what has happened rather than deal with the issue in isolation. We will then get far more information.

Fergus Ewing: As Kate Maclean argues, we should certainly accept the referral. I speak as the local member for Inverness, who advocated

relocation of specific departments of Scottish Natural Heritage to my constituency. We should also seek to bring in the ministers who were responsible for the decision; we must question them because if we do not, we will not get the answers that we seek. We should not necessarily just bring in Tavish Scott, although he could perhaps sit in as well.

I reread the report by DTZ Piedad Consulting Ltd—the company from which the previous witness, Peter Wood, comes—during the recess. It ruled out Inverness from the short list of five locations—I was not happy about that decision, but that is what the report, on which the Executive spent a lot of money, said. When asked to comment on the SNH decision, Tavish Scott stated in the annex to his letter that the DTZ report was taken into account. How can that possibly be? The DTZ report was ignored, so perhaps he means that he took it into account by ignoring its recommendations entirely and by not telling anyone the reasons why he did so.

I hope that we will hear from the ministers who were responsible for taking the decision. I think that those would have been the Scottish Executive Environment and Rural Affairs Department ministers, Mr Finnie and Mr Wilson, although other ministerial fingerprints are said to be on the decision.

DTZ Piedad's estimate of the cost of the relocation of SNH to Inverness was that it would be about £20 million. Since that estimate was made, it appears that the Scottish Executive has accepted that the cost has risen to about £30 million. We heard recently that SNH has commissioned a further consultant's report. According to press reports, that further consultant's report says that the cost is £40 million. Earlier in the meeting, I was very tempted to ask Mr Wood whether he was happy with the fact that his company's estimate appears to be out by a factor of 100 per cent—good manners prevented me from raising the point.

If the cost has risen from £20 million to £30 million and now to £40 million, we need the Executive to tell us, as part of its response to the policy question, at what point the aim of dispersing public sector jobs, which we all support, becomes something that cannot be justified in practice on the basis of costs, which are about £200,000 per job in this case. I raise the point in order to set the scene and to suggest that we invite SNH to share with us a copy of the consultant's report that it commissioned. If SNH is unwilling to do that, we should ask it to share with us a summary of the report's recommendations. Before we question the minister, we should find out what is the best estimate of the cost. Is it £30 million or has it risen to £40 million? If the figure is £40 million, or

approaching that amount, does the Executive think that its policy on relocating jobs is worth £200,000 a shot?

I am sorry that I have gone on at some length on the matter. However, having read all of the papers and thought about the subject over the recess, I think that the way ahead is very clear. Before inviting the ministers who took the decision to explain why they took it we need further information.

Jeremy Purvis: I must first declare an interest, which is that I signed the petition.

The SPICe briefing note is very helpful. It provides background information and shows that a number of anomalies are involved. As the briefing note says, a common factor in some but not all the relocations that have been announced is that the new location is the

"Highest ranked location after business analysis."

It would be helpful for the reporters to provide an analysis of the subject.

The letter from Allan Wilson displays a degree of hubris. I want to raise questions about a number of areas. Although I am relaxed about the format that we take, our role is to scrutinise the entire relocation policy. Within that role, we should scrutinise the specifics of the SNH decision, which is the most glaring anomaly of all.

We should approach a combination of ministers to ascertain the overall policy and the specific issues that relate to SNH. I would like us to have a mechanism whereby we can raise issues on the petition and ask other questions that arise from the correspondence. I also support the proposal for reporters to undertake work on the overall policy so that we can shape policy in future.

Mr Brocklebank: We need an opportunity to go into the matter in more detail. The most perturbing aspect of Allan Wilson's letter was where he said:

"In considering the project plan, the Executive will be taking as flexible an approach as possible. However, there is no scope for reversing the overall decision".

It is apparent that, whatever we think, the decision cannot be overturned.

Jim Mather: I am interested by the possibility that we might have the scope to expand our inquiries and get the question of relocations on to a more realistic and sustainable basis in the long term. Technology now allows the transfer not only of entire entities but of parts of departments, partial entities and so forth. It would be exceedingly useful to take the chance to ventilate and debate the situation at some length.

Once a mechanism is established whereby parts of Government departments can be relocated to other parts of the country to balance coverage

more appropriately, we could create a role model that could be taken out to the private sector. Banks, life companies and other major employers could emulate the role model by taking advantage of new technology and the lower costs that can be accrued in more remote parts of Scotland.

The Convener: One of the points that occurred to me after reading the briefing note was that, apart from the relocation of a Scottish Executive department to Glasgow, there has been no relocation anywhere else than Falkirk. The question is not just about considering more remote locations in Scotland; it is obvious that substantial areas of the west and south of Scotland are considered remote in the context of relocation. We need to look at such issues.

Dr Murray: There is a general issue to do with the way in which the criteria for relocation work. The same areas tend to come up every time and always score highly. There is another issue as to how jobs can be dispersed more widely. The point that Jim Mather made about relocating parts of departments is pertinent in that regard.

12:00

The Convener: I think that there is support for the idea that we appoint a couple of reporters to go away and do some further work on the subject to prepare us to take the issues forward. The reporters could look at the broader issues and at some of the specifics that relate to SNH. Do members agree to take that approach? Do members also agree that the reporters should conduct the exercise fairly speedily?

Members *indicated agreement.*

The Convener: I ask for volunteers who would be willing to undertake this short-term exercise.

Fergus Ewing: One volunteer present and correct.

Dr Murray: I would be happy to volunteer.

The Convener: We have two volunteers: Elaine Murray and Fergus Ewing. Do members agree to appoint those two members?

Members *indicated agreement.*

Fergus Ewing: What about the other issues that are involved?

The Convener: The suggestion is that the reporters go away and do the preliminary work. Their report could include recommendations about the evidence that needs to be collected and the questions that need to be put to the ministers. I think that that is the appropriate way in which to proceed.

Fergus Ewing: That is the appropriate way to proceed. However, we know about a report that

apparently says that the cost of the SNH relocation has risen to £40 million. The reporters will be slightly hampered without that information. We do not know what the best estimate of the relocation is and whether the estimate of £40 million is robust. Surely we should write to SNH now to ask whether it is willing to share the information with us. The information would inform the work that Dr Elaine Murray and I have agreed to undertake.

The Convener: It is perfectly possible for the committee to write letters in support of the inquiries that the reporters are to undertake. We need to discuss how clerical support could be provided. The main point is for the reporters' work to come back to the committee in order to inform how we progress the issue.

Fergus Ewing: Are you saying, "No, we are not writing to SNH" or "Yes, we are writing to SNH"? If we write now, we can get the information, but if we wait for a month, we will lose momentum.

The Convener: I am quite happy to write to SNH to ask for information that is relevant to the issue.

Fergus Ewing: Thank you.

Financial Memoranda (Scrutiny)

12:02

The Convener: The next item is consideration of the committee's approach to the scrutiny of financial memoranda and whether it wishes to take evidence on the Nature Conservation (Scotland) Bill.

I wrote to members asking for their views about whether we should take oral evidence on the Nature Conservation (Scotland) Bill. I received a variety of responses. We need to take a decision in principle on whether we are going to take oral evidence on every bill or whether we want to set up criteria for assessing whether we should take oral evidence on bills. The second option would allow us to be a little more selective about the bills that come before us for scrutiny.

It might be difficult to develop precise criteria. For example, the Executive said that the National Health Service Reform (Scotland) Bill was to be introduced at zero cost, but in its scrutiny of the bill, the committee found a number of aspects that it wanted to explore. That said, in the case of other bills—it may be that the Nature Conservation (Scotland) Bill is one of them—the committee might wish not to exercise the full scrutiny process but to adopt some lesser process of scrutiny or leave the scrutiny process to the subject committee that has overall responsibility for looking at the bill.

I ask the committee to identify how it wishes to take forward the issues in general and to decide how it wants to deal with the Nature Conservation (Scotland) Bill in particular. I think that Kate Maclean has something to say on the matter.

Kate Maclean: I spoke to you about the matter earlier. It is important that we have a level of scrutiny for all legislation, but the committee might want to scrutinise specific legislation by taking oral and written evidence. We could flag up certain issues with the subject committees or use a checklist to ensure that certain areas are covered when we write to the Executive. Our overarching role is to consider every piece of legislation, but we do not have to scrutinise all bills in the same way. The previous Equal Opportunities Committee had three levels of scrutiny, which seemed to work well because we were able to have some input on every piece of legislation that the Parliament considered.

Fergus Ewing: I wrote to the convener to express my view that we should not decide to dispense with oral evidence. Part of the core function of the committee is to probe and question the financial estimates for every piece of legislation that comes before us. I agree that

written evidence should be obtained, but there must be an opportunity for members to probe and question whether that written evidence is robust.

I will share with the committee the original financial estimates for the Bankruptcy (Scotland) Act 1985 that were made by the eminent Scottish Law Commission. That body predicted that the cost of the act would be in the order of £10,000 to £20,000 a year. By the early 1990s, that cost had risen to £20 million a year. The Finance Committee would look foolish if there were to be any example of such a situation after we had decided—perhaps for understandable reasons of work load—to depart from the practice of inviting key players to give oral evidence. It might be that the oral evidence-taking session could be shortened to an hour or so, but at this stage in Parliament we should not countenance taking a decision to dispense with the right to question witnesses. The Finance Committee is regarded as having the job of asking how much anything will cost. I know that that is debatable, because I understand from part (a) of our remit that responsibility lies with the lead committee. I want to do my bit to carry out the Finance Committee's job.

Jim Mather: Both the subject committee and the civil servants in charge should subject financial memoranda to a checklist at least and probably to further scrutiny. Initially, I was somewhat relaxed about the matter because I had become clinically aware that, given the virtual cash-accounting nature of governance in Scotland, staff in each and every department bounce off a financial ceiling and have no further spending available beyond the scope of the budget. However, the key point is about markers and signals, so we must probe and interrogate witnesses on the effectiveness of the measures that they take. It is worth while doing that and having the evidence on the record. Therefore, I am backtracking from my previous cavalier approach.

Jeremy Purvis: We could find a compromise by having a system that allows us to take oral evidence from the bill team as a matter of course, but for some pieces of legislation to obtain written evidence from other witnesses. I agree that it would be useful to have an opportunity to scrutinise the work of the bill team that puts together the bill and sees it through the Parliament, but witnesses can be of varying quality. If the point is to try to cut down on time, taking receipt of written evidence from other witnesses would achieve that. I would rather have written evidence from the Executive than none at all but, as a compromise, we should take oral evidence from the bill team.

Mr Brocklebank: I am concerned about getting into a mode whereby we accept written evidence.

As everybody knows, when something is written down, it can be doctored, shaped and, who knows, spun. I am convinced that one of the functions of the committee is to scrutinise. We appear to have a tremendous amount on our plate, but I am persuaded by the argument that, even with a shorter time scale, we should still have the ability to scrutinise witnesses.

Dr Murray: As the convener is aware, I was one of the people who were in favour of taking written evidence from other sources. I am still attracted to that because it could flag up areas where others feel that there are issues that we should probe further. I agree with Kate Maclean that there should be some mechanism by which we can assess whether we need to take further evidence from the bill team because others have raised concerns through their written evidence.

Jim Mather: A throwaway comment that was made today by Donald MacRae might give us something to build on. He talked about how the bank evaluated its client entities—I suspect that he meant people who continued with the bank year on year and not necessarily those who applied for funding in the first instance. He talked about balanced scorecards that contained 12 to 20 measures. There would be merit in our coming up with a similar balanced scorecard that the proposers of new legislation could use to address certain points that we think are important. That would give us a vehicle for crisper, tighter questioning and it would give us a benchmark against legislation that comes from other departments.

The Convener: We have sought to do that by discussing the formatting of financial memoranda that have come before us, which included issues of refinement. We have two propositions. To summarise what Fergus Ewing said, the first is that, in principle, we should agree to take evidence on every Executive bill that is introduced. The other is that we should try to develop a mechanism—a scorecard or broad criteria against which we can assess—

Jim Mather: Those options are not mutually exclusive.

The Convener: No, we would consider each bill and use criteria to decide whether we wanted to take oral evidence and differentiate the scrutiny. Jim Mather says that those measures are not mutually exclusive, but I think that to some extent they might be, if I understand Fergus Ewing's proposition correctly.

Fergus Ewing: I am not sure because until we know what criteria you are talking about, it is difficult to formulate any judgment. For the time being, I suggest that we continue with the practice of taking oral evidence, but that we keep it under

review. We all want to do the work that we have taken on and now, so early on in the parliamentary session, would not be the right time to make a decision of that nature. We will not have to deal with very many bills, although some of the health bills will undoubtedly require much more careful and close scrutiny than other bills will. Let us proceed on the basis that we carry on with oral evidence for the time being and be sensible in our approach to the evidence that we seek, the witnesses that we hear and the use of the committee's time.

The Convener: If we have consensus, I suggest that, for some bills—the Nature Conservation (Scotland) Bill is an example—we should take oral evidence from the bill team only as Jeremy Purvis suggested. For other bills, we should continue as we have until now with the two health bills. It is really a question of horses for courses. The clerks and I will try to find a mechanism of formalising the process that we can bring to the committee, so that we can agree that we are proceeding in the broadly correct way. Is that acceptable? In a sense, we would be doing what Fergus Ewing suggested.

Kate Maclean: Fergus Ewing is saying that we should take evidence from a wide range of people. We should either do that—and do it properly—or have another kind of scrutiny system in place. If we are to take evidence on every piece of legislation, let us take it from a wide range of individuals and organisations.

12:15

Dr Murray: If we are to take oral evidence from the bill team, we must at least take written evidence from others, so that we know what questions we need to ask.

The Convener: That is right.

Kate Maclean: Why should we not take oral evidence from others? If we are to take evidence, we may as well do so properly.

The Convener: I am in the hands of the committee. I am aware that this is a big part of our work load. For three years, the Finance Committee did not scrutinise the financial memoranda of bills, which was wrong. It then adopted the practice of examining bills selectively, which worked reasonably well. Given the volume of bills, can we say that we will examine every bill in the same detail? That is the logical consequence of what Kate Maclean is suggesting. Alternatively, is there a stripped-down method of examining bills that we do not think require such detailed scrutiny?

Dr Murray: I do not want to prolong the discussion, but I made a point about taking written

evidence. It is possible that everyone who writes to us about the Nature Conservation (Scotland) Bill will say that they are perfectly happy with the financial memorandum to the bill. If everyone agrees with the bill team, there is probably no reason to take evidence from it. However, if some parties do not agree with the Executive's analysis, we may wish to take further evidence.

The Convener: I am most concerned about our saying that we will scrutinise financial memoranda and then doing so only partially in some circumstances. It is better for us to be very clear about what we are doing than for us to leave scope for confusion in the process.

Jeremy Purvis: This is only a personal view, but my experience since May is that occasionally we have asked witnesses questions that we should have put to the bill team. I would be relaxed about our taking more written evidence from a wider range of witnesses, which would allow us to shape in more detail our questions to the bill team, rather than taking more oral evidence from witnesses that would decrease the amount of time that is available for questioning the bill team. The compromise proposed by the convener, which builds on Fergus Ewing's suggestion, would allow that.

The Convener: Time is pressing, so we must make a decision. Do members agree to take oral evidence on the Nature Conservation (Scotland) Bill whenever that can be organised—which would have to be next week? The agenda for next week's meeting will be very congested. Do we also agree that, based on today's discussion, we will produce for further consideration by the committee a paper on how to proceed with scrutiny of bills in general?

Members indicated agreement.

Budget Process 2004-05 (Scottish Parliamentary Corporate Body Submission)

12:18

The Convener: Agenda item 5 is consideration of the budget submission of the Scottish Parliamentary Corporate Body, as part of the committee's consideration of the budget process 2004-05. Our witnesses, whom I welcome, are Paul Grice, Robert Brown and Derek Croll. Derek Croll is with us for the first time, following his appointment as head of corporate services, so we extend a particular welcome to him. I also welcome Margo MacDonald MSP to the meeting for this item.

Members have a copy of the budget submission, together with a covering letter from the Presiding Officer. I invite the witnesses to make an opening statement, if they so wish.

Robert Brown MSP (Scottish Parliamentary Corporate Body): The letter and appendices are fairly self-explanatory, but I would like to place them in context before asking Paul Grice to say a little more about planning for the transition to Holyrood, in which the committee previously expressed an interest.

The capital bid reflects known information already examined by the committee on the Holyrood project. I imagine that the committee will want to consider that at our next periodical report rather than concentrate on it today. The committee will have received the Presiding Officer's monthly updating letter a few days ago.

On revenue, the SPCB has said repeatedly that it would take some time after the establishment of the Parliament to reach stability in the cost of running it. The costs of running the current establishment have been fairly stable for the past couple of years. A new salary structure for parliamentary staff has been introduced following a period of using civil service pay scales. That is reflected in the budget.

When we eventually move to Holyrood, there will be changes in some revenue costs. Some of those will be transitional and one-off and some will be longer term. At the moment, the end-year flexibility has rolled forward the transitional costs that, because of the delayed completion of the building, will be incurred later but are not extra costs. We are assuming that there will be a six-month period of double running.

As the Chancellor of the Exchequer might say, we have been prudent with revenue expenditure over time. However, we are trustees for the Parliament and, in a broader context, decisions

are due to be made on one or two issues such as longer-term support for the non-Executive bills unit. Not every demand can be met and, in the same way as all other organisations, we have to make decisions on priorities. Broadly, the SPCB is trying to provide services that will run the Parliament within the current envelope, subject to those observations.

Perhaps Paul Grice will say something about the arrangements for transition for the committee's enlightenment.

Paul Grice (Scottish Parliament Clerk and Chief Executive): The first thing that I should say is that the migration strategy is yet to be agreed with the SPCB, so I will attempt to give the Finance Committee an idea of where we are going. Once the corporate body has settled on a plan, I will be more than happy to discuss it with the committee. We aim to ensure that we do not disrupt parliamentary business and that we are able to start business at Holyrood after the summer recess in 2004. That is clearly predicated on Bovis Lend Lease Ltd delivering to the current programme.

Although the building is being completed in phases—the members' block, Queensberry House and then the rest of the site—our current working assumption is that occupation will not commence until the full building is handed over to the Parliament at the end of July. In that scenario, we plan to conduct as much testing and preparatory work as building completion and health and safety considerations will allow prior to handover. In other words, we will be getting into the different parts of the building when we can and doing what testing we can. That will be significant in some areas.

We had planned to ask members and their staff to pack up in July, move all the corporate body staff at the start of August, conduct a full-scale live test in mid-August, move in members in late August, provide training and familiarisation with systems, and commence the full operation after the summer recess. That same approach could be applied at other times of the year, but the length of the summer recess provides an obvious and ideal window.

The migration is being handled and co-ordinated by an implementation unit that operates throughout the organisation. Migration is embedded into many functions of the Parliament and the unit provides a monthly update to me and to the corporate body. Many parliamentary offices have been working steadily towards migration for many months and they are well down the track. Thirty-seven out of 52 contracts for new services have been let, and the remaining contracts are in the later stages of completion. For example, the information technology network contractor started on site on 13 October with the installation of the

telephone exchange and equipment taking place shortly thereafter.

The final major furniture contract is about to be let after final corporate body approval. By early next month, we expect to have two MSP rooms fully fitted out in order to allow members to select their furniture and to decide how they want their rooms to be configured. As the committee knows, discussions with the parties on the allocation of rooms in the MSP block are also now under way.

The new building will have a huge impact on the organisation in a number of areas, but perhaps the most significant impact will be on visitor numbers. The higher visitor throughput will certainly contribute towards the Parliament's key principles of openness and accessibility, and will allow the Parliament a higher and, we hope, positive profile. The intention is to provide a high-quality visitor experience. Work has begun on developing an external and visitor management strategy, which will be discussed with the corporate body. Clearly, the large number of visitors that we expect in the first few years will have an impact on cleaning, wear and tear, care of the landscape, catering and many other areas. All the contracts that have been awarded for Holyrood are sufficiently flexible to enable us to respond to the impact of the expected numbers.

Recently, I have restructured the organisation to reflect the new challenges. Facilities management has been aligned with information technology so that the right people are working together in preparation for our migration to Holyrood. A new directorate has been created, focusing on access and information so that our outward-facing work has greater focus, particularly to address visitor management. In both cases, I have put experienced directors in charge and I am confident that they will be able to deliver what is needed.

Staff numbers are controlled carefully and, to echo what Robert Brown said, the corporate body will look hard at new demands and will always look at offsetting savings where possible. However, some burdens cannot be absorbed in their own right—I am thinking particularly of the challenges of running a new, larger and more complex building and the large number of visitors to it. We are working on proposals on both fronts to discuss with the corporate body, but planning for that is already reflected in our budget. As members can see from the figures, we have set aside £0.5 million in contingency for that. The corporate body will make the ultimate decisions on that over the next few months and any update will be reflected in further reports to the committee in line with the budget process.

The Convener: Thanks very much. I remind members that we are dealing with the budget submission, rather than with the Holyrood

progress report, which we have agreed to consider at our meeting at the end of the month.

I have a technical question to start with. Although £50,000 is a relatively small amount, why are you projecting a lesser income for 2004-05, given that what you said about increased visitor numbers suggests that there might be an increase in income?

Paul Grice: There are two points to make on that. One of our principal sources of income is broadcast income and the corporate body made a decision that, in the wider public interest, it would not seek to charge broadcasters when we are at Holyrood—the current agreement runs until we get to Holyrood. That figure reflects that potential loss of income. Secondly, it reflects the phase that we are at. The corporate body will consider a number of options for revenue generation—for example in the shop with merchandising, or with catering. Until we are further down the path and until the corporate body has made key decisions, a sensible estimate of income cannot be made. I certainly hope that as the decisions are made and we can make more sensible projections, you will see the proposed income line rise and, as a result, the net requirement for funding reduce.

The Convener: Will the visitor restaurant generate income?

Paul Grice: The current plan is for it to wash its face—to break even. We may look at catering in the outside part of the Parliament, with high-quality external catering. We have not got to that stage yet, but there might be some franchising and other arrangements that could generate revenue for the Parliament. We will consider all those matters. Rather than make a wild guess, it is better to take the work further forward and feature better estimates in our future projections. We will consider all potential areas for revenue generation as well as deliver good services to the people who come to use the building.

Fergus Ewing: Are you 100 per cent confident that the Parliament building will be completed by July next year?

Paul Grice: The answer to that question is the same as it has been every time that the question has been asked. We cannot give guarantees, therefore I am not 100 per cent confident. The current Bovis programme, which I understand that Bovis is on in terms of the critical path, says that the building will be finished in time for handover next summer. That is the basis on which I am planning. Of course we have flexibility in the plans, because previously programmes have not been met and we have had to adjust. The migration plan can be delivered at any point in the year, but the key point is that the summer recess is obviously the best window in which to do it. If we were

forced to migrate later in the year, that could be done, but we would obviously have to consider the impact on business and others, which would be more complex at a time when the Parliament was sitting.

Fergus Ewing: You have said that you are not 100 per cent confident that the Parliament will be complete by the most recent estimate of July 2004. How confident are you, given that you are not 100 per cent confident?

Paul Grice: I do not think that it would be helpful to speculate beyond what I have said, so the answer is exactly the same as the answer that I gave at the most recent meeting. I do not have anything further to say and I am not inclined to give a different figure. That date is what we are working towards. We have been clear and honest with the committee in the past. We are not giving guarantees.

Fergus Ewing: I appreciate that the question might be difficult. It directly affects the issue of migration costs and double-running costs, because any further delay will mean more costs.

Paul Grice: Not necessarily, Mr Ewing. Your question is a good one, because it goes to the heart of the matter. However, what you say is not necessarily the case. In a sense, the costs have been tracked through already and members will see that most of them simply move in time and do not necessarily go up. Therefore, it does not necessarily follow that migration costs will increase if we migrate at a later date. As you well know, other costs related to the construction of the building are very sensitive as far as the programme is concerned; however, as I have said, the actual migration costs will not necessarily go up if we migrate later.

Fergus Ewing: I understand the general point. However, I notice that the double-running costs of £1.2 million that were estimated for this financial year have moved by a further £1.5 million—presumably to £2.7 million. As a result, the situation seems to have added to the cost.

It is legitimate to press you on the completion date because we have had various completion dates, beginning with July 2001. Indeed, I well remember that the last predicted completion date was the end of this year. That prediction was wrong. Are you concerned about the press reports in the *Scottish Daily Mail* by an undercover reporter, who has found that not many people who are working on the site seem to share the confidence expressed in the advice that you have received? After all, we are sitting in a committee room, but that reporter is actually on the site. Furthermore, have you taken any steps to investigate the matter by meeting Mr Caldwell or contacting his newspaper to ascertain whether the

picture that he painted and the views that he expressed have any merit?

12:30

The Convener: With respect, I think that we have agreed to deal with matters related to the building's progress at a specific date. I do not think that there is much purchase in—

Fergus Ewing: But the witnesses are here. Would it not be sensible for the committee to ask these questions?

The Convener: No. The witnesses are here specifically to answer questions on the budget.

Fergus Ewing: But this matter might directly affect the budget.

The Convener: If the witnesses want to answer any questions about impacts on the budget, that is only right. However, we must not be diverted down a different route. That would be inappropriate and unfair to the witnesses.

I ask Paul Grice to comment.

Paul Grice: In light of your comments, convener, I am not sure what I am able to answer. However, if it is any help, I reassure the committee that all the *Scottish Daily Mail* allegations have been investigated. Indeed, I discussed the matter with the SPCB this morning. We sought a response from Bovis Lend Lease, which has rebutted all the accusations in the newspaper report. That is as much as I could tell the SPCB this morning. As one would expect, when I heard about the allegations I asked for them to be looked at. One has to take such allegations seriously, however they are garnered and whatever spin a newspaper puts on them. I was able to report that this morning. That said, I am very conscious of the convener's comments and do not want to go any further down that track.

Fergus Ewing made a fair point about the so-called double-running costs. I ask Derek Croll to explain that matter, because it is germane.

Fergus Ewing: Just—

The Convener: Come on, Fergus. You have had—

Fergus Ewing: Can I just clarify something?

The Convener: Let Derek Croll answer your question.

Fergus Ewing: My question bears on what Mr Grice was saying—

The Convener: No, Fergus. It is neither fair nor reasonable for you to keep intervening. Other members wish to ask questions. You have asked a question to which Derek Croll will now respond and I think that it is reasonable to allow him to do so.

Derek Croll (Scottish Parliament Clerk/Chief Executive's Group): As far as double-running costs are concerned, we specify in schedule 3—which we sent to the committee—that the total double-running costs budget is £2.7 million. That cost is split over two years purely because some of it was already budgeted as part of our approved 2003-04 budget. As a result, we have deliberately not rebudgeted for those figures in the next year. In effect, the £2.7 million is our estimate of the costs when the migration happens.

Jeremy Purvis: For the record, I want to register my anger at the deputy convener's conduct in asking his question. The committee clearly agreed on how to approach the line of questioning, and it is outrageous that that particular question was asked when other committee members did not have the evidence in front of them.

I have two very quick questions. First, what will be the estimated staff turnover once the migration takes place? Will that situation settle down when the Parliament moves to its permanent headquarters?

Secondly, Paul Grice mentioned the project's various revenue-raising aspects, which would be very welcome. Indeed, if the building becomes the second-biggest tourist attraction in Scotland, the revenue-raising aspects might well be large. When can we expect to hear back from you on your review? While you conduct that review, will you speak to the authorities at Westminster about how they engage with tours during recesses and in the evenings? That is a revenue-raising aspect at Westminster.

Paul Grice: We have a target for staff turnover of 8 per cent, and current turnover of permanent staff is just below that. I expect the figure to stay there or thereabouts and perhaps to drop a little when we move to Holyrood. Just as the new building will be a much-improved environment for members, I hope that it will be a much-improved environment for staff to work in.

Staff turnover is, to a large extent, determined by economic factors. We are still in a buoyant labour market and are competing with other people for very high-calibre staff. We have taken on a lot of staff specifically for the move, and we would expect those staff to drop away when we move to Holyrood. A lot of staff have been taken on in IT and facilities management, and in one or two other areas, and the idea is not to carry them beyond what we need.

On revenue generation, as I reported previously, we have had survey work done. I would like to have further work done to get some hard numbers—not just the global number but, more important, information on who the visitors are,

where they come from, what they are likely to be interested in and, therefore, what they do. We are looking to take high-quality, professional advice, and we will take somebody on to the staff—even on a short-term basis—who has good hands-on experience of major visitor attraction management. That is not a skill that the parliamentary authorities would instinctively look for; nevertheless, there is a skills gap and we need to get the best advice about how one provides a good service and looks at all revenue-generating options. There are some judgments for the corporate body to make about what it is appropriate for a Parliament to charge for. I would not want to pre-empt that at this stage. We will reflect any decisions on that in future reports to the Finance Committee.

I accept entirely your point about Westminster. Coincidentally, a couple of days ago I received a letter from somebody who had been involved in running tours at Westminster, offering to come and help. That is a gift horse that I am going to accept. That person has very relevant experience and I hope to contact them to pick their brains. If necessary, I shall follow up the matter with the parliamentary authorities at Westminster.

Robert Brown: It is perhaps worth adding that the configuration of the staff—not so much the staff turnover—will be different for a one-site building of a greater size than the existing premises. We are considering how that reconfiguration can best be managed, regarding the existing security staff and other staff.

Dr Murray: I have two brief questions, the first of which concerns the double-running costs. Your estimate is based on the prediction that the building will be finished in July, when there will be a window of opportunity with the Parliament in recess and fewer people around. If—God forbid—the completion date slips and we have to migrate at a less fortuitous time, when more people are around, do you not believe that there might be additional running costs associated with the difficulties of migration when everybody is in the vicinity of the Parliament for the entire six months?

My second question concerns staff pay. The increase of 8.5 per cent is quite high compared with increases in other parts of the public sector. Do you have any comments to make on that?

Paul Grice: On your first question, a slippage could have some effect; however, our budget for double-running costs will—at best estimate—apply whenever we do it. Clearly, if there is a long period in which we can migrate, such as a summer recess, there will be a more orderly migration and that will give greater certainty about costs. If we find ourselves having to migrate over a more compressed period, there could be other costs. However, I believe that that budget will suffice for the migration even if, as you say, we have to

migrate at a later date. If we face that possibility, of course I will have the budget re-examined very carefully by the implementation unit and, if there is any significant change to it, it will be discussed with the corporate body and, if necessary, with the Finance Committee.

The staff pay increase contains two elements. There is a cost-of-living increase of roughly 3 per cent and an increase of roughly 5 per cent on top of that. As Robert Brown said, we have introduced our own new pay structure, which better reflects a parliament than a civil service organisation. As part of the package, there are new performance pay arrangements, which have people moving up through the grades at different paces—faster at the more junior grades and slower at the more senior grades—according to satisfactory performance. Because we are a relatively young organisation, the great majority of our staff are towards the bottom of their pay scales, in comparison with the civil service or a more mature organisation. You would therefore expect them to move quite rapidly initially; that is what causes that increase. I expect that to stabilise over the next couple of years.

Mr Brocklebank: I would like clarification on a couple of points that you mentioned earlier—one on arrangements for media and press coverage and the other on overall catering arrangements. Am I right in understanding that no costs will accrue to the media organisations for their coverage of the Scottish Parliament?

Paul Grice: Yes. An arrangement was put in place by the then Scottish Office to charge the media for the feed. I can go into more detail about that, but basically the media organisations pay shares and the BBC pays the most by far. Some organisations do not participate and therefore do not take the feed. Some time ago, the corporate body considered long and hard what it would do when it moved to Holyrood, and it took the view that, although the income was useful, openness was an important objective, as was the desire to have the maximum amount of exposure and coverage of the Parliament. In particular, it was felt that a greater prospect of a Scottish parliamentary channel would be facilitated if there were no longer a charge, and that that would also make it easier for digital and smaller broadcasters to pick up the feed.

That is the basis on which the decision was taken and the cost of that worthwhile objective is forgone broadcast revenue. The current deal only ever extended to the new building and would have had to be renegotiated in any event, and the corporate body took that decision. The short answer is yes, but I hope that I have managed to give some of the context behind the decision.

Mr Brocklebank: The feed apart, what about the hardware, the IT facilities, cameras and the nuts and bolts of the operation?

Paul Grice: The cameras in the chamber and committee rooms will be provided, as they are here, as part of the parliamentary estate. In terms of extra facilities, if the BBC or any other organisation wanted a studio within the media block, we would expect them to pay for that.

Mr Brocklebank: So the broadcasting organisations would pick up the tab for their own equipment and interviews?

Paul Grice: Yes, but we supply the cameras and mixing equipment that are in the chamber itself.

Mr Brocklebank: But not in the studio facilities?

Paul Grice: No. If they want to build a studio in the media tower, which they may well do, I would expect them to pay the fit-out costs for that.

You had another question about catering, I think.

Mr Brocklebank: Yes. You talked about the type of catering that will go on within the parliamentary building. Will there be a them-and-us situation? Is there to be a different cost structure for MSPs as distinct from visitors? How will it work?

Paul Grice: That is a good question. If you will bear with me, I shall explain the different types of catering. The biggest catering outlet in the organisation will be the canteen or restaurant for staff and members. That facility will be very much like what we have here but it will be bigger. Some of my staff are not on site at the moment, so there will be more people in the new building. That will be the principal catering outlet. There will also be a dining area, broadly called the members' dining area, although we have not yet looked at the rules for who gets to eat there. The corporate body will need to consider that. There will be a public cafeteria, and there may be the possibility of outside catering. We will need to look at that.

We have not looked at pricing structures, but the current thinking is that, if you want the public canteen to wash its face, you would need to have higher prices there than in the staff and members' restaurant. All those things are matters for consideration. If you want to charge staff more, there will clearly be a lower subsidy going in, up to the point at which you can get the facility to break even. If you feel that it is right, as many organisations do, to have some degree of subsidy, that carries a price with it. The same is true of the public canteen; it would be possible to subsidise prices there, but that would come at a cost.

Those are matters that the corporate body wants to look at, and I want to be able to provide data

that are as hard as possible on the costs and benefits of those various decisions. We could set the prices at anything that we choose; each option carries a cost and benefit impact. We have a broad idea of how we might replicate what we have here, up to a point, but decisions have to be taken on the pricing structures in all those catering outlets. Again, as we move closer to Holyrood, once the corporate body has taken decisions on that, any impact on the cost and revenue balance would obviously be reported to the Finance Committee. In all honesty, the judgments are quite difficult to make. There are a number of factors to consider, and I hope that I have laid out what they are, but final decisions have not yet been taken. I would want to discuss that with the corporate body.

Mr Brocklebank: Could there be a decision that meant that a member of the public came in and had a cup of coffee in the public canteen and paid £1.50 while Jack McConnell went into the members' place and paid 75p?

Paul Grice: There could be—or vice versa.

Margo MacDonald (Lothians) (Ind): Stick to tea—that is my advice.

I am interested in the work of the implementation unit, the costs for which are given in the paper. I presume that, by and large, that work is driven by the advice that is given by the contractors.

Paul Grice: On programme, yes. Obviously, the implementation unit is looking at some 50 contracts, so it is driven by advice from a wide range of people.

Margo MacDonald: Exactly. It is driven by advice. I am not absolutely certain whether this information came from the implementation unit itself or from the departments concerned, but I am told that as late as June of this year an exercise was being carried out to look at the costs, methods and procedures for migration in October and November of this year. All of us knew that such dates were nonsense, yet the implementation unit presumably incurred costs in undergoing that exercise. You have been advised that the handover period will be summer of next year, but what if that proves not to be the case? Is money being spent just now in working out game plans for summer of next year?

12:45

Paul Grice: The implementation unit has a fundamentally important job, which is to ensure that we are focused on this major challenge. As I said, in addition to the building itself there are something approaching 50 new service contracts; pulling them all together is a major challenge, especially with the shifting position on programme

that we have had. Quite frankly, the marginal cost of rolling the Gantt chart forward a few months is negligible, so I do not think that large costs are incurred through wasted effort.

What the implementation unit has always done, and what I will continue to ask it to do, is produce advice to fit a number of scenarios. I very much hope that the migration date will be next summer, but the migration team has a range of scenarios for the corporate body's final decision if it is another date. On a number of occasions, the migration team has presented to the corporate body a range of scenarios, including the ones that Margo MacDonald mentioned, because those scenarios were still in play. If new programmes require different scenarios, that is fine. However, the basic approach to moving is as I have described and does not change fundamentally if the migration date is moved backwards or forwards.

I make no secret about the fact that absolutely the ideal time to move is during a long recess. However, before the building slipped to the current date, I was envisaging a move at a different time in any event. We had to redevelop—to an extent—one of those scenarios for moving during a shorter recess period. For example, we learned a lot of lessons when we looked at last October and, indeed, Easter. If you like, we might regard as an upside the expertise that the implementation unit has gathered.

I promise you that there is no conspiracy. To an extent, the implementation unit is just trying to hit a target that, hitherto, has not been still. I demand expertise, flexibility and imagination of the implementation unit so that whenever we move it is able to carry out the move well. By the way, the unit is a tiny team of about three or four people, but they are highly skilled. Obviously, the unit is crucial when it comes to making a success of the move.

Margo MacDonald: I mean to imply absolutely no criticism of the unit or of its remit. I simply question how effective the unit can be over its outgoing costs. As you well know, it costs money for people to undertake these planning procedures and exercises. I just question where the responsibility for paying those costs should lie, if a number of those exercises have turned out to be wild-goose chases.

I want to move on to another issue. It is some time since I made the tongue-in-cheek remark about the Parliament building's becoming a visitor attraction and therefore needing more public toilets. I asked whether enough of those had been provided, because that will affect either the revenue expenditure or the capital expenditure—presumably depending on whether they are portaloos or properly brick built. Can we hear more

about how the expenditure for coping with visitor numbers is estimated?

An earlier summary of progress on the Scottish Parliament building included an annex—which I presume came ultimately from you—on the Parliament's interim accommodation, which stated:

“For example, security costs are much higher than they would be at a mono-site location.”

Does that still hold true?

Paul Grice: I am not sure how much more I can say about the toilets. There are a certain number of toilets in the building and—

Margo MacDonald: Are there enough for 70,000, which is a lot of folk?

Paul Grice: Not all at one time. I do not think that there are plans to build any more toilets. As I said in my opening remarks, we have a big job to do in looking at visitor management in the round and we are doing that. I have restructured the organisation to support that and I am bringing in expert advice. I will discuss that with the SPCB over the coming months. If there is anything more to say, we will, of course, report that to the Finance Committee.

Margo MacDonald: What about security costs?

Paul Grice: You made a fair point about security, in which a number of swings and roundabouts are involved. I instructed a review—which has begun—of the security service ahead of the move to Holyrood, because we need to look at the issues. On the one hand, what was said in the report to which you referred still holds true, which is that a single site is simpler to secure than multiple sites. On the other hand, securing a site that will be used by many more people—

Margo MacDonald: Who are getting impatient standing in line for toilets that are not there—

Paul Grice: Yes, if that proves to be the case.

Other factors are that the building will be complex and that it is near a royal palace. Set against those factors is the opportunity in a new building to employ technology—for example, closed-circuit television cameras—to support security.

There are many factors in the equation and I cannot give you a definitive answer one way or another. What I am saying is that forces are moving in both directions. The bottom line is that we must have a security force that is able to do its job, which is to look after the safety of people visiting the building and those who work in it, such as ourselves.

Margo MacDonald: When will you have a final report on the issue?

Paul Grice: I would expect to discuss that with the SPCB sometime in the new year. As you might expect, I am also looking at opportunities in relation to the security service that are tied in to wider visitor management. Security staff are the people whom most visitors to the Parliament encounter first. I believe that the security staff have established a tremendous reputation as ambassadors. I do not want to miss any opportunity for ascertaining whether we can have enhanced roles for security staff.

The picture is very complex. We are doing a proper review that involves the unions and others. I expect to report to the SPCB on that in the new year. There may be positive or negative financial consequences from that, which would become clear at that time.

Margo MacDonald: There should be financial consequences—I believe that there probably will be, because there will be more training for staff. We take the staff for granted. We get the Parliament's security staff for peanuts, given the amount of good will that they generate. If they are properly trained, graded and rewarded, we will have a more stable work force. It is true that that will cost us more, but I for one believe that that will be worth it.

Professor Midwinter: If I may, I will clarify for the committee the underlying assumptions about the staff pay issue, which Dr Murray raised. The assumptions are 3 per cent for inflation and roughly 5 per cent for increments. The SPCB budget submission refers to "agreed increments", which Paul Grice hopes will stabilise. Does your budget assume 100 per cent staffing? Are you costing for that?

Paul Grice: Yes.

Professor Midwinter: You said that there is a 7 per cent staff turnover. Is anything built in to allow for a saving through the turnover?

Paul Grice: There might be, but the problem with turnover is that we often have to plug a gap with short-term staff, who tend to be more expensive. Again, swings and roundabouts are involved, which is the case for any organisation that runs at less than 100 per cent staff complement. If, at a distant post-Holyrood point in the future, I could confidently predict a level of staff occupancy of less than 100 per cent, we might take that into account in the budgets. However, the prudent course just now is to budget in the way that we have done.

Professor Midwinter: It is noticeable that the increments are bigger than the pay increase, particularly because for the following year you are back down to roughly 3.5 per cent for staffing. Are the increments a one-off deal or are they likely to recur each year?

Paul Grice: I return to the answer that I gave before. We have, after a long consultation with staff and discussion with the unions and the corporate body, moved to a performance pay arrangement, which broadly reflects what the Executive—our major competitor for staff—does. By performing to a high level, which we expect, staff move automatically through the pay range.

When I say that we have a young staff, I am not necessarily talking about their age; I mean that they are new to the Parliament, unlike in local authorities or the civil service. Arguably, to some extent we are getting our staff quite cheap, because there are more of them towards the bottom end of the scale than one would find in an older organisation. Therefore, now that we have introduced the system, we expect staff to move rapidly through it.

This will perhaps echo a bit of what Margo MacDonald said. I do not accept her point about paying peanuts, but I accept her general point about wanting to reward staff for working well, and we have high-quality staff. We must always strike a balance between what is a reasonable amount to pay and what we expect of our staff. We expect much of our staff and they generally deliver very well. There will be a short-term effect as a result of the arrangement and we would expect the position to stabilise. As people get to the top of the scales, large increases throughout the organisation will generally become less frequent. We are talking about a short-term phenomenon.

Professor Midwinter: But you are basically confident about the following year, because there is a noticeable difference as the figure goes back to 3.5 per cent.

Paul Grice: Clearly, the figures are predictions, because we are talking about performance pay. They reflect the advice that I have had from the personnel department, which has considered the matter carefully. The system is brand new. If I have reason to depart from the figures, that will feature in forward programmes or when I come back to the committee. That is the best answer that I can give, sitting here gazing ahead a couple of years. We have a budgeting process and if, as we firm up estimates for future years, there is a need to adjust them, we will make a bid to the committee. As I sit here, the assumption seems reasonable, based on what we know about our staff and what we know about the performance pay system.

The Convener: Further detail on that would be helpful. Do you have a projection for EYF this year, given that your budget is so dependent on using EYF to balance the books? How do you see the amount of EYF being reduced once you have moved over to the new set-up?

Derek Croll: I guess that that question is for me. The EYF in the current budget relates to 2002-03. We have not predicted what EYF there might be from the current year. I expect that there will be some, but until we get there I am reluctant to forecast that.

The Convener: But you are halfway through the year. You must have some sensible idea of where EYF stands.

Derek Croll: We are currently running at about a 5 per cent underspend against the budget for the five months to date.

The Convener: How does that compare with last year?

Derek Croll: It is closer to budget than last year. We were probably at about 6 or 7 per cent at this stage last year.

Paul Grice: There has been a trend towards getting expenditure closer to budget. That has not been helped by the unique circumstances of the move, but we had hoped for such a trend and I would expect it to continue. Uncertainties will be created by the move year, but beyond that we are gradually getting closer to budget. I cannot remember the exact figures, but I am sure that 5 per cent at this stage is closer than we were in the equivalent period last year.

The Convener: Is it possible to get a future projection of EYF and information on what steps you are taking to reduce the underspend that leads to EYF?

Paul Grice: We are still at a relatively early stage in the year. If we can give a reasonably firm prediction later in the year, I will be happy to supply it. We always want to spend under our budget; we do not seek to spend the full amount. On what we are doing to improve our spend against budget, the biggest single improvement is work by Derek Croll and his team on improving the profiling of expenditure. At the crudest level, people just take the annual budget and lop it into 12 pieces, but we all know that expenditure is quite lumpy. The finance team has been working with the spending bits of the organisation to try to improve the situation. The corporate body and I, and others, have learned as we have gone along about the areas where there is significant underspend and the areas where we have got it right. We just have to try to learn each year and get better. The big effort that we have made to help people to profile in a more sophisticated way is starting to pay dividends and I expect that to continue to improve.

Jim Mather: I put on record my appreciation for Paul Grice's answer and reassurance on the *Scottish Daily Mail* reports. That confirms that the committee and the corporate body can deal with

real-world issues in real time, which is a healthy signal.

One figure from our papers leapt out at me. It concerns the fact that rates are markedly higher than was expected. Is it possible to say how much more than expected those rates are? That is not clear from the schedule in front of me. Why were the rental savings not factored in earlier?

Robert Brown: Until the rates valuation is fixed by the City of Edinburgh Council, that figure will not be finalised. We provided the best professional estimates that we could. As is obvious if committee members think about it, the rates figure is a little arbitrary in a sense. The rates that come in feed into the uniform business rate and get reallocated across Scotland. If a higher figure comes in here, more can be put out elsewhere—the thing is adjustable. Rates are not a total cost to the public sector budget in the same way as they are for a private organisation. To an extent, one is a bit more relaxed about the ultimate rates figure, although there are accounting issues. I will ask Derek Croll to speak about the rental side.

13:00

Derek Croll: What exactly does Jim Mather mean by rental savings not being factored in?

Jim Mather: Schedule 3 deals with recurring costs. Opposite the entry "Property" is shown a further recurring cost of £1.3 million. The wording beside that reads:

"Higher estimated rates of £4m p.a. partially offset by savings in rent etc."

Derek Croll: Once the Parliament has moved to Holyrood, we will obviously not be paying rent, because it will be our own building. We are currently paying rent.

Jim Mather: Yes, but my question is why that was not factored in earlier.

Derek Croll: It is factored in.

Robert Brown: The rates component is impossible to factor in totally until the rates are fixed; we have always known the figures for rents.

Jim Mather: I am still struggling with this. The table in schedule 3 says:

"Higher estimated rates of £4m p.a. partially offset by savings in rent etc."

Is that £4 million per annum the total rates estimate?

Paul Grice: Yes, that is the current estimate of rates. As Robert Brown said, until we get to Holyrood, we will not know the figure for certain. The figure was provided by our property advisers, and we are working on that basis.

Jim Mather: I shall look at the *Official Report* of the meeting later to see whether I can get some clarity on that. I am totally confused at the moment.

Paul Grice: I take your point on that.

Jim Mather: The sum is relatively trivial, but I was interested from the overall point of view of non-domestic rates being so dramatically high throughout Scotland over the next three years. I was looking for some tangential input on that.

Paul Grice: The rates are tied to the value of the building, which is why we have to wait for that figure to be finalised. We have taken some professional advice to allow us to budget for the rates. The current estimate that we are using remains £4 million.

The Convener: Derek Croll was talking about EYF a few minutes ago. My figures are perhaps a bit different from his. Although 5 per cent EYF comes to around £13 million, I think that last year's EYF figure was about £40 million.

Derek Croll: That includes a lot for capital on Holyrood. The underspend on the Holyrood project also gets carried forward through EYF.

The Convener: So you are just looking at the revenue side.

Robert Brown: Yes. That is by far the most meaningful way to do things. If we include capital, it just distorts things unmeaningfully.

John Swinburne: How far down the road of commercialisation are you prepared to go? You are talking about employing a high-powered marketing expert. What are your thoughts on that?

Paul Grice: I would not say that he is a high-powered marketing expert; he is somebody who has run visitor attractions. There is sometimes no substitute for getting in somebody who has actually done the job. Marketing is part of that, but it is more about how to run a visitor attraction. We have some fantastic staff in place, but we could do with that bit of extra input, at least for a period.

I do not think that I have ever used the word "commercialisation", but the corporate body has to reach quite a difficult judgment on what is a wider parliamentary issue. We are not like any other visitor attraction; we are a Parliament, and there are issues that need to be considered. Ted Brocklebank made some points about the cost of cups of tea in the Parliament and so on, and those things are actually quite important. On the one hand, the context must be one of protecting the public purse, which suggests that we look to generate income in all areas where we can. On the other hand, we are a Parliament that has openness and accessibility as guiding principles. That suggests that we make things as cheap as

we can, if not free. There is a balance to be struck. Ultimately, it is like a political judgment, which, rightly, will be made by the corporate body. What I need to give the corporate body is more information about what each decision might cost in terms of costs and revenue. It will then have to come to a view. I suspect that whatever principled view is arrived at might have to be adjusted in the light of experience.

John Swinburne: Do you envisage people paying to come into the Parliament to see it?

Paul Grice: I do not think so. It is about what they do when they get in.

John Swinburne: Is there any possibility that the expert whom you are bringing in has had anything to do with that magnificent dome that they had south of the border?

Paul Grice: No.

John Swinburne: That is another reassurance that I am pleased to hear.

The Convener: I thank the witnesses for attending. We will move on to agenda item 6. We agreed to move into private session to consider our draft report on the financial memorandum to the National Health Service Reform (Scotland) Bill.

13:05

Meeting continued in private until 13:07.

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