

# **FINANCE COMMITTEE**

Tuesday 9 March 2004  
(*Morning*)

Session 2

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## **FINANCE COMMITTEE** **9<sup>th</sup> Meeting 2004, 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)

### **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)

\*attended

### **THE FOLLOWING ALSO ATTENDED:**

Professor Arthur Midwinter (Adviser)

### **CLERK TO THE COMMITTEE**

Susan Duffy

### **SENIOR ASSISTANT CLERK**

Jane Sutherland

### **ASSISTANT CLERK**

Emma Berry

### **LOCATION**

Committee Room 2



## Scottish Parliament

### Finance Committee

*Tuesday 9 March 2004*

*(Morning)*

[THE CONVENER *opened the meeting at 10:01*]

### Budget Process 2005-06

**The Convener (Des McNulty):** I welcome members to the ninth meeting of the Finance Committee in 2004. The meeting is public, so I also welcome members of the press and public. I remind everyone to turn off their pagers and mobile phones.

We have received no apologies for absence, so let us move on to agenda item 1.

We will consider a briefing paper that has been produced by Arthur Midwinter and the Scottish Parliament information centre—"Key Trends in the Scottish Budget 1999-2003". As I explained last week, this paper and the paper that Arthur will produce for our meeting on 23 March are designed to assist members in their scrutiny of the Executive's budget. It is worth saying to members that this is the first stage in the scrutiny process. Arthur makes it clear at the beginning that the paper is not a fully developed assessment but a background paper that will allow us to drill down into the budget. I invite Arthur to speak to his paper. We will then move on to discussion among members.

**Professor Arthur Midwinter (Adviser):** The difference between this paper and the previous paper is that the previous paper covered data in "Government Expenditure and Revenue in Scotland" and therefore went beyond the Scottish budget. That paper also gave outturn figures. The data in today's paper are budget allocations rather than outturn figures. The figures are only for the Scottish budget. If members compare the two papers, they will see slight differences between them in what appear to be the spending priorities.

To bring members up to date, following our discussions with Executive officials about the committee's request to have a 10-year trend profile, that request seems likely to be successful—the Executive has a team working on it. That information will have to incorporate two changes. One concerns resource accounting and budgeting: the Executive has to de-RAB the figures for the past three or four years so that they are all in cash terms. The other issue is that the Executive will have to map out all the changes between portfolios. Members will have received a bewildering array of background papers by the time they get to the spending review.

We were also keen to see what data were available on outputs of services. Ross Burnside carried out a fairly extensive search of the official data to see what was available. Later, I might have a think about what data the committee would actually want, as opposed to what is provided.

The objective in today's paper is to consider the links between spending and outputs. As the convener suggests, that is to assist the committee in robust scrutiny. We want to improve the Executive's performance in the spending review 2004. In the paper, we make broad use of what we term "need indicators". Most resource allocation formulas that are used by the Executive are heavily weighted by population groups—something like 80 per cent of local authority grant-aided expenditure is based on population in one way or another. We have linked client groups for services to the trends in spending and outputs.

In practice, the relationship between spending and outputs is complex, so the findings in this paper are not comprehensive or definitive. However, they are important. In the closing section, we highlight a number of matters of concern with regard to previous statements of spending priorities. When ministers come to give evidence, the committee may well want to pursue those matters for explanations of some of the curious trends and findings.

Having gone over all the documentation, I am still puzzled by what a priority is and how it is measured. In the past, the Executive has queried the use of budget allocations, so I have used the Treasury's approach—the one that is used in the spending reviews in London. The Treasury talks consistently about giving greater priority to allocation of new resources to its spending priorities. We have used the average increase as the baseline for comparisons.

Without doubt, Parliament needs a much more systematic framework for defining and auditing priorities than exists at the moment. We have been working on this for two or three years, and we have made progress, but we still need to know whether the Executive has met its objectives for its spending priorities. How will we know that? At the moment, we cannot really tell from the figures.

In "Building a Better Scotland", there are seven priorities. I would class five as being functional—the "people's" five priorities, as they are called. The other two are cross-cutting priorities. There is almost one priority per portfolio, which is far too many. The reason why some programmes appear not to be priorities is that almost all programmes are defined as priorities. We need fewer and clearer priorities.

The picture has become confused because the First Minister has said that economic growth was

the top priority—but economic growth does not appear anywhere in the budget documents as a priority, although jobs appears as a priority in BABS. The First Minister's statement was made last year, probably after the spending data that we are using in our paper today became available. However, for the next spending review, we need some clarification on what the real priorities are.

The figures show that, at portfolio level, the children and education budget, the communities budget, the transport budget and the health budget were all above the average rate of increase. Surprisingly, the justice budget, the enterprise and lifelong learning budget and the local government budget were below that average. There are transparency problems when we dig into the GAE figures, but we can find low increases for education, social work, police and fire, and an increase for roads and transport that is well above average. Those five services are the big five for local authorities; they account for more than 80 per cent of local authorities' budgets. Although there is a list of 20-odd services, those five are the ones that matter most. The low increases in the budgets for education and police—which the Executive holds up as priorities—are a matter for concern.

It was interesting to consider some of the demographic trends over the period. We have declines in pupil and patient numbers—by which I mean patients who are actually being treated. Those declines are probably consistent with the overall trends in population decline in Scotland. There has been a fall in reported crime, growth in the numbers of further and higher education students and growth in traffic levels.

The education comparison is interesting; members will receive a paper on that in a fortnight's time. Education makes it as a priority every single year. In school education, there has been an above-average increase in money, and there are fewer pupils and teachers. In higher education and further education, there are more students and fewer lecturers, and below-average increases in money. There are some contradictions in that.

When I was producing this paper, I thought that we should perhaps have a discussion with the Executive on whether the financial consequences of population decline should be set out within budgets. That decline has obvious implications for programmes, but at the moment it is not referred to. The Executive may be taking the decline into account, but nothing is being spelled out for us.

I have looked at the current plans to see where we are, and a similar pattern of change over the current spending-review period emerged. The same kind of programmes receive high increases and low increases—except in GAE where the figures were nearly all below the Scottish average.

What are the issues of concern? Health spending has been a priority for several years—I include in that the time of the previous Conservative Government. Health spending has been growing as a share in the budget for a long time. I was particularly struck by Dr Walker's evidence on the budget, which the committee received earlier this year. He said that health has been improving for 10 years and suggested that that might be for reasons such as an improvement in diet, lifestyle and income or increased public investment in housing, as well as investment in health. There is a question mark over the continuing position of health as a big spending priority, even though health consequentials are due to emerge through the Barnett formula because of the commitment from Whitehall that health will remain a spending priority.

The trend for the next three years appears to be that the communities budget will be a low priority. I wonder to what extent that is consistent with the emphasis on closing the opportunity gap. According to the figures, the enterprise and lifelong learning budget is also a lower priority, in the sense that the increases will be of a lower level. I wonder whether that is consistent with the jobs objective. Additionally, the justice programme is almost at a standstill, including the police GAE figures in the totals. That puts in question whether tackling crime is a priority.

Pay was one of the issues that the press picked up at the weekend when they looked at the paper on the website. It is fair to say that a lot of money has gone into pay as a result of pressure from what are called capacity problems. I remember people arguing for additional funding for nurses and additional salaries for junior doctors to ease the pressure on the system, and I remember the teachers' deal. Unfortunately, we do not get information in a way that allows us to address the issue of pay—we do not get any clear assumptions about pay. In the budget, the Executive normally states that it assumes that the figures will meet pay and price inflation as well as allow the development of services. It is understandable that the Executive says that; however, that is quite vague. I wonder whether we need some kind of benchmark.

About five years ago, a member asked a parliamentary question about the proportion of the budget that was staff costs. The figure at that time was 55 per cent. It might be worth revisiting that question to give us a view of how the situation has changed in the five years since. I realise that there are problems in setting out some kind of pay assumptions because they can become a norm or a starting point for negotiations rather than a serious figure. However, we need to explore the issue with the ministers.

I will come back to the committee later with a paper on capital. The Executive is hopeful that it will be able to provide me with a comprehensive set of data, including all the different forms of capital that appeared in the budget document this year for the first time. That will come later and will bring the whole matter together.

**The Convener:** I thank Arthur Midwinter and Ross Burnside for the work that has gone into the paper. It may not supply us with answers, but it certainly gives us a lot of questions to pursue. It provides a lot of background information that will be useful to the committee over the coming period. It will be useful not just in the context of the budget process and the spending review, but in feeding into the work that the committee has commissioned on growth, the first stage of which we anticipate receiving towards the end of March or the beginning of April.

I agree strongly with Professor Midwinter's argument that, to some extent, the demographic or structural pressures that underlie projected future spend should be more readily available to us. If the Executive is going to go down a policy route such as, for example, free personal care, which has longer-term financial implications, it is important that we are aware at the outset of the likely future financial implications. I am not sure that Parliament has always been sufficiently aware of those issues, which is something that we need to address.

I was slightly confused by the figures for children and education on page 5 of the briefing, because they suggest a budget increase of 55 per cent, which is higher than I would expect. Table 2 on the next page says that the increase for local government funding of education is 9.4 per cent. It would help if you could shed light on that possible inconsistency.

10:15

**Professor Midwinter:** I think that Wendy Alexander raised the same issue at a previous meeting. Children and education is a special programme that is funded and managed in the Executive, whereas the figures in table 2 represent the amount that goes into GAE. In a sense, table 1 refers to a centrally funded specific grant programme that involves a small amount of money, whereas the education GAE is the main funding for the education service.

**The Convener:** If the figure is £311.2 million, it is not a small amount of money.

**Professor Midwinter:** I agree.

**Dr Elaine Murray (Dumfries) (Lab):** The document is a useful piece of work. As Arthur Midwinter said in his introduction, we must be careful not to read too much into the figures,

because a policy priority is not necessarily the same as a departmental spending priority. A policy priority can be achieved through several initiatives that work across departments. We must have a safety warning about not over-interpreting the figures, although they are interesting and guide us on the questions that we want to ask.

Page 11 refers to communities and housing shortages. Am I correct in thinking that when stock transfer occurs, as in Dumfries and Galloway and in the Borders, the cost is picked up by the Treasury rather than by the Scottish Executive Development Department, so some of that expenditure will not show up in the analysis?

Table 6 projects GAE. What is the real-terms percentage increase in GAE over that period? I am sure that that information is available in Executive publications, but I do not have it. That information would allow us to make comparisons with the Scottish budget increase. If GAE is 80 per cent of local authority spending and local authorities receive the same real-terms percentage increase as is in the Scottish budget, I wonder what is being done with the other 20 per cent to make everything add up. To what extent is expansion envisaged?

Like Des McNulty, I am still not clear about the difference between the education figures and the children and young people figures. That matter shows up again in tables 5 and 6. Education and young people has a projected increase of 37.3 per cent, but only 7.4 per cent of that goes down to local authorities. Does the difference relate to ring-fenced projects, such as those for additional support needs, that do not show up as GAE?

**Professor Midwinter:** The money for stock transfer comes from the Treasury, but it is transferred into the appropriate Executive budget and will not show on our accounts. That funding will come before the committee as an interdepartmental transfer in the revisions and will therefore end up in the accounts as housing expenditure.

**Dr Murray:** The Minister for Finance and Public Services argued to the committee that end-year flexibility money was transferred out of the communities budget because it was no longer needed as the cost was being picked up by the Treasury.

**Professor Midwinter:** Under the arrangements, I understand that if the money comes from the Treasury as a transfer, it should return automatically to the Treasury at the end of the year if it has not been used. The budget might initially have made provision for that. Once the negotiations had taken place and it was agreed that the Treasury would provide funding, that would release the funding in the way that Dr

Murray described. However, when the appropriate Treasury funding comes in, it still has to be transferred to an appropriate Scottish account. That funding may or may not be in the planned figures. The £1 billion for Glasgow certainly came through as a transfer in a budget revision.

**The Convener:** That programme had a problem with slippage.

**Ms Wendy Alexander (Paisley North) (Lab):** I have one technical question about the paper, also about housing. I will pursue that now and return later to the couple of general observations that I want to make. In the paper that you presented on Tuesday 10 February 2004, which analysed GERS, one of the most interesting things to emerge from tables 3 and 4 of that paper was that expenditure in Scotland on housing relative to the UK had doubled, albeit that there was a one-year difference in the base year, which was 1997-98 rather than 1998-99.

More important, the growth in budget provision in the housing line had risen by 140 per cent, which was three or four times what was seen in health and education. It is difficult to reconcile that with what is emerging in this paper about what has happened to the communities line. I am not looking for an answer now; I am simply saying that I know that the matter is one of intense interest to the housing community, as I know having found myself debating it at length with the Scottish Federation of Housing Associations.

I would be enormously grateful if at some point you could provide some sort of reconciliation of those data. I make that request with a view to trying to get a handle on what is happening to housing supply. Obviously, there are issues in the extent to which individual sectors are rewarded—I am thinking of the council-house sector versus housing associations and so forth. Nevertheless, it is almost impossible for a lay person to reconcile what this paper and the one that we received last month tell us. At your convenience, I would be grateful if, some time in the next two months, we could have a paper that gives us that reconciliation—or at least a top-level reconciliation. If we had a committee paper, we could also make it available to the housing sector, which would be hugely useful.

**Professor Midwinter:** Probably the lowest recent year of investment in housing in parliamentary history was 1997, which was the base year. Given that the Executive started from a low base, increases in the first period might therefore look significant. I have corresponded with the Executive and it will provide an explanation for the data below the GERS figure.

I have had the same correspondence with the housing people, who are puzzled by the figures. I

have to say that they are the Treasury's recorded figures.

**Ms Alexander:** Indeed.

**Professor Midwinter:** The paper shows that, once the big increase had taken place, the fact that the housing sector is having a smaller increase for the current period is not necessarily inconsistent with the increase that might have taken place from a very low base in 1997.

**Ms Alexander:** That is an absolute vindication of why we need trend data that cover 10 years; that is the driver of much of this. I return to the point that Elaine Murray made about making it clear whether any of the write-off of debt is included in the GERS figures. I think that it is not, but it would be helpful to have a little note on the treatment of that point because it would help to illuminate the housing debate.

**Professor Midwinter:** I raised that on the telephone with Executive officials who were not sure about the matter. They will pursue that and get back with an explanation, at which time I will produce the note that you are looking for.

**Ms Alexander:** Thank you.

**Professor Midwinter:** I have two points that are outstanding from Elaine Murray's questions—she asked about the real-terms increase in GAE as a whole. We can certainly provide the committee with that. In previous years, from memory, the Executive made certain programmes—almost the top four that are mentioned in the paper—their key priorities and everything else was frozen in cash terms. That happened around 2000, when education, social work, the police and fire services were regarded as priorities and everything else was expected to stand still in cash terms. All the new money within GAE went to particular programmes, but that does not mean to say that that is what happened at the local level. As I said, we can provide the figure.

Elaine Murray also asked about BABS. The section on "Education and Young People" is the third line in the total managed expenditure figure in the table for the Scottish budget. The difference is that "Education and Young People" is a specific area that is ring fenced—in your terms—whereas the GAE funding is the money that goes to support existing levels of provision within local authorities. I am looking to see whether there is a phrase that would tell the committee what the TME figure covers, but there is not: the document just says "Education and Young People".

Within that total, there were grants for social work training, for children and young people and for something called schools. However, the document does not provide the detail that is contained in the draft budget. Basically, we are

dealing with centrally managed programmes that are ring fenced and separate from the GAE moneys.

**The Convener:** As you say, the amount is much smaller than the education budget that goes through local authorities.

**Professor Midwinter:** It is very big money—about half as much as the GAE moneys.

**Mr Ted Brocklebank (Mid Scotland and Fife) (Con):** In your paper you say:

“Recent years have seen unprecedented growth in public spending”

and you draw attention to the fact that the creation of jobs does not really seem to be regarded as a priority in the enterprise allocation. Wendy Alexander and I recently had a spat in the chamber about growth figures for Scotland. She suggested that those figures appear to be much better than we had previously thought. In your judgment, given that you have examined the budgets, are we talking about growth that is fuelled by the unprecedented public expenditure that has taken place? In other words, is growth coming from the public sector and not at all or very marginally from the private sector? That appears to be borne out by the wage scales that you discuss later in the paper. Public sector wages are currently rising faster than private sector wages.

**Professor Midwinter:** I am not competent to answer the question about the measurement of gross domestic product, on which the dispute between Ted Brocklebank and Wendy Alexander centres, but I can undertake to find out the answer for the two of them, if they wish. What I have read in the papers suggests that growth in the public sector will certainly influence the growth figures for Scotland, because the public sector accounts for such a big proportion of gross domestic product. However, I am not one of those specialists who think that he should give answers outwith his domain—I am not technically qualified to answer the question as Ted Brocklebank would like me to, but I shall talk to a leading economist about the matter.

**Mr Brocklebank:** Would not a layman infer from the figures that you have provided to the committee that growth is coming from the public sector?

**Professor Midwinter:** There has been real growth in the budget for enterprise and lifelong learning, but that growth is not as big as the other increases that have taken place. The question is whether that can be squared with the notion that provision of jobs is a priority. Although Elaine Murray said that there are policy priorities, I—because I am the budget adviser—concentrate only on the priorities that are stated in the budget.

In the budget, Andy Kerr states that jobs are one of the five priorities. He goes on to say that the aim is

“Above all, to ensure that our spending has maximum impact in meeting our priorities.”

It is absolutely clear what the budget priorities are, regardless of whether they are policy priorities. I have no idea whether economic growth is the top priority, as a minister said in Parliament one day. It has certainly never appeared as a priority in the budget documents. I am very sticky about such issues. It is my job to advise the committee on the budget, not on other statements that ministers may make.

**John Swinburne (Central Scotland) (SSCUP):**

Thank you for bringing this document down to the lowest common denominator. I understood quite a bit of it—you and Ross Burnside have done a great job. I am interested in the demographic changes. To what extent is the drop in the number of patients due to the falling population? Is it the result of an improvement in health and lifestyle? Right across the country, people are living longer—which is to be applauded—apart from in Shettleston. However, in none of the documents is there specific reference to 25 per cent of the population—my generation. In 2010, there will be more people over 60 than there are under 20.

**Professor Midwinter:** I have my fingers crossed on that one.

**John Swinburne:** Never uncross them. This is an excellent document that I received very well, but it fails to concentrate on what we are about.

10:30

**Professor Midwinter:** There were data in the health chapter. Health is a big spending area in which the elderly are one of the major client groups. It is an area in which a projection of the impact of demography on costs has been tried and I am sure that I have seen a figure of something in the order of 0.8 per cent extra per year being needed to cope with the change in the demographic profile and the growing number of elderly people.

There are several services for which the elderly are the key client group. We suggested to the previous Finance Committee that a way to tease out the figures would be to do a review of spending on the elderly as part of the cross-cutting reviews. At the moment, the figures are concealed within bigger budget heads.

**John Swinburne:** Cunningly.

**Professor Midwinter:** The committee might do well to consider that as a future cross-cutting exercise. It would be interesting to see what is spent on a group that is growing and will continue

to do so until early in the next decade, as Mr Swinburne said.

**Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP):** I admit that I find it hard enough to think of my friend John Swinburne as a senior citizen, never mind as the lowest common denominator, which he most certainly is not.

I am grateful for the presentation of the figures. Table 1 shows the spending trends for the past four years—1999 to 2003—and table 5 shows the projected figures for this year and the next two years, which is a three-year period. We are looking backwards and forwards.

As we look back to the first term of the Scottish Executive, we see that spending on enterprise and lifelong learning increased by 7 per cent, which is an eighth of the increase in the share of spend on children and education and one seventh of the increase in transport and environment spend. Similarly, if we look forward to the next three years, the increase in the enterprise and lifelong learning budget is amongst the lowest—it is lower than the average and significantly lower than the projected increase in spend on education and young people. That brings out the contrast between the Executive's main aim, as stated in the partnership document, of growing the economy—that was to be the main aim, not just a priority—and the spending pattern that Professor Midwinter has identified.

Of course, one can argue that putting money into transport and education contributes to economic growth, albeit indirectly. We are all familiar with such arguments. However, on the face of it, there is a contradiction between the Executive's primary objective of growing the economy and bringing new jobs and vibrancy to Scotland, and the spending patterns. I say that by way of introduction.

Although the Executive has set the aim, we are none the wiser about how it will achieve it in budgetary and financial terms. It has said that growth is its destination and that it wants Scotland's growth to be much higher, but, in delivering that success, the Executive is a bit like a pizza boy who is told that he has to go and deliver a pizza to an address, but has no clue where that is, does not know how to get there and then finds out that someone has stolen his moped.

**Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD):** He should not go hungry because he could eat the pizza.

**Fergus Ewing:** Jeremy will lend him his moped.

With that analogy in mind, I want to focus on the transport figures. The transport budget is getting a slightly above average percentage increase. I have two points for Professor Midwinter to

address: one is general and one is more specifically about transport.

As far as economic growth is concerned, does Professor Midwinter consider that it would be sensible to have a longer-term transport policy if the Executive is to have a coherent strategy and plan to deliver its key objective? An example would be a longer-term programme of planned investment in our trunk road network, which is key to freight economic activity and the general smooth operation of the economy. Is there a need for a longer-term plan than the triennial programmes that we have at the moment? That would be a start that the Executive could make to flesh out that aspiration.

Secondly, concerns have been expressed to me about the Executive's existing plans and intentions for key major transport programmes being unlikely to be achieved. I understand that alarm bells have been ringing recently in the Enterprise, Transport and Lifelong Learning Department because there is concern that money might not be available for many pet projects that the Executive has talked about supporting. I put the matter to Professor Midwinter in general terms, but I would be grateful if he could come back to us with an analysis of the capital spend on transport over the next three years—the period that is shown in tables 5 and 6.

**The Convener:** I think that Professor Midwinter is preparing a paper on capital spend that we will see in due course.

**Professor Midwinter:** It is interesting that, in response to what I think was our most recent paper, which questioned whether there was evidence that a low priority was being given to matters such as economic growth and jobs, a member of the Executive highlighted transport, which was one of the five Executive priorities.

There is a 10-year plan on transport, but I am not fully familiar with it and I do not know how it fits into the budget process—the convener might be able to shed some light on the matter, as he used to be a member of the Transport and the Environment Committee. This would not be the first time that we have had problems in trying to square the budget cycle with longer-term planning exercises. There is a 10-year transport plan, but budget plans are for only three years. I am happy to examine the figures, consider the matter and come back to the committee with advice.

**Jim Mather (Highlands and Islands) (SNP):** Your paper is useful and greatly clarified matters. I welcome the news on the 10-year trend data, which promises more in the future.

I consider papers such as yours from the perspective of the business community, which is where I come from, so I look for a profit-and-loss dynamic in which spending is intended to

maximise the bottom line of future income and boost the balance sheet. When I looked at the output measures in the paper, I wondered whether we should drill down a level and consider output measures that might be even more meaningful, such as economic growth, population movement, the identification of specific additions to infrastructure and general boosts to Scotland's competitiveness, right through to life expectancy and living standards—a whole raft of things could be measured. Are data available on such matters, or is there a mechanism that would allow us to measure them?

**Professor Midwinter:** Again, that is beyond my remit as the budget adviser; it is really a matter for an economist. I am sure that there are economic models that would enable an economist to give you an answer. I should perhaps say that I am a bit sceptical about modelling exercises, but if the committee thought that it would be worth while to pursue the issue, it would need to draw up a remit and seek research funding for one of the centres of excellence in economics to carry out a study. There is no reason why one of those centres should not do that work.

**Jim Mather:** The issue is interesting in the context of population decline, which you mention on page 9 of your paper. The Registrar General's recent report suggests that population decline is perhaps symptomatic of economic decline and a further spiral of decline. Your paper comments on the possibility of tax reductions, but if we are to have a smaller tax base and the opposite of economies of scale, we could be heading for a situation in which services will diminish if taxes do not increase.

**Professor Midwinter:** At the risk of causing controversy between the political parties, I should say that, given how Scotland gets its budget, what really matters for the sheer mechanics of the budget process and any growth or fall in the yield is what happens at United Kingdom level. There is currently major concern about whether growth will be adequate to fund the Chancellor of the Exchequer's spending plans. At the moment, the way in which we get our money is quite simple and, in most cases, is unaffected by those matters.

**Jim Mather:** I understand that the Barnett formula is population based. If we have a declining population—

**Professor Midwinter:** That will not have any effect on the tax base. It is interesting to compare Scotland with Northern Ireland, which reckons that it is getting a raw deal out of the Barnett formula because it has a growing population. That is because the baseline is such a large part of the equation that the Barnett formula operates only at the margins. In straight financial terms, Scotland

has an advantage over Northern Ireland, whose growth in spending is not keeping pace with its growth in population.

Economists, rather than finance specialists, would be best equipped to deal with the wider economic questions.

**Ms Alexander:** We need to ask ourselves where we are going to be at the end of our first year of running the Finance Committee. In that regard, I think that two issues that the committee needs to pursue arise from this paper, in which they are slightly conflated. The first is the role of the Finance Committee. Our job is to examine what is being spent and why it is being spent, not to judge whether that spending is right or wrong. On the issue of what is being spent, I am encouraged by Arthur Midwinter's assurance that we will eventually get the long-term trend data.

Before the end of the year, we need to nail down for ever the quality of information on expenditure in Scotland. The way to do that is to write to the Executive. Damn it, we produced our stage 2 report on the budget in December. We should write to the Executive and say that we would like it to specify the information that is available in the United Kingdom about long-term trends and capital spending and ask for an assurance that, as of the start of this coming budget round, the same information will be made available by the Scottish Executive. The Executive must specify what information is available in the UK and agree to make available the same amount and quality of information in Scotland.

Every time budget advisers or the Scottish Parliament information centre try to do the sums on behalf of the Executive, we let the Executive off the hook. We are a smaller polity than the UK and we should have the same level of in-depth data that a much larger geographical unit with many more responsibilities manages to produce. As I said, before the end of our first year, we need clarity in writing on how that will be provided on an on-going basis.

A second issue arises from the paper, although I think that the paper has mixed it up with the first issue. The paper deals with what is spent and with what is achieved with that money, which involves questions of what the inputs and outputs are and so on. I want to pursue this issue as I know that it is one of incredible interest to the convener. We need to be careful that we do not hack away at what we think might be the outputs when, actually, that is the job of the Executive.

It is clear that, when we ask what we are achieving for our spend, we must examine inputs, outputs and outcomes. Two issues arise from that. How are we measuring those three dimensions and how are we monitoring them? Again, I think

that we should write to the Executive to say that we are glad that we are making progress on the issue of how much is spent but, critically, we want to know what that money is achieving. We should also ask the Executive to outline how the UK is pursuing input, output and outcome measurement and monitoring and the extent to which the same thing is being done in Scotland.

I say that because, in my view, the numbers that are employed as outputs should not be regarded as outputs—frankly, they are inputs. It is not helpful to have a mishmash of inputs and outputs. The Scottish Executive can come back on this, but there are experimental measures of productivity south of the border that have not yet been taken up in Scotland. It is a live issue because the Atkinson review is due in the summer and it will consider how we can improve measurement of outputs rather than inputs.

The way to get to the bottom of the issue and avoid obfuscation is to write to the Executive to ask it to specify how inputs, outputs and outcomes are measured and monitored in England and to specify our approach in Scotland. That would give the Finance Committee an agenda for year 2 and enable it to move on, having resolved how much is being spent, and consider what that money is achieving. No doubt we will have to pursue that issue for the whole of next year, but there is real movement on the issue south of the border and it is important for us to keep up. It is more important for us to create political pressure for the figures to be made available to everyone in Scotland rather than for the committee, with its limited resources, to try to improvise measures that are properly the responsibility of Government.

10:45

**The Convener:** I do not disagree with that, but I would add a few points. First, the previous Finance Committee did some work on outcome budgeting, and the evidence that we took on budgetary performance, not just here but elsewhere, suggested that it was not progressing very far. I would not exaggerate the extent to which progress is being made in England—there has been limited progress up to now.

The arguments that Wendy Alexander put forward on consistency are correct, but I would like to add a comment on the proliferation of targets, which is an issue that has been raised constantly. It is important for the Executive to consolidate targets when it moves forward; if there was a smaller number of targets, that would make our job of monitoring progress easier and, more important, it would give the Executive a clearer sense of direction about what it wants to achieve. One of the problems at the moment is that there are so many different targets that there is a lack of coherence in too many areas of Executive activity.

**Dr Murray:** To return to the issue about policy priorities, I am not rushing in to defend the Minister for Finance and Public Services, but I know from the previous spending review that each departmental budget is interrogated on how it contributes to the Executive's priorities. Attention is not focused on particular budgets, but the question in relation to tourism, culture and sport, for example, might be how spending is directed at growing tourism and so supporting jobs in that sector.

Tourism, culture and sport will not show in this analysis, but it is expected to make a contribution. Perhaps we need to ask the question at departmental level. I do not want to get involved in the budgets of individual departments, but questions can be asked about how each Executive department contributes to each of the Executive's priorities, and we can try to get numerical values for those inputs. Questions can also be asked about how the Executive will measure each department's success in contributing to economic growth or the Executive's other priorities.

**Professor Midwinter:** Elaine Murray's question is freshest in my mind so I will deal with it before I go back to Wendy Alexander's comments. For the information that was provided last time, each department was asked to say how its portfolio would contribute to closing the opportunity gap and to sustainable development. When the replies were summarised for us in the budget document, they were not greatly helpful—few of them had numbers attached and we could not tell how much was being spent on the Executive's cross-cutting priorities.

I would like the Executive to use those priorities in a much more rigorous and systematic way that does not ask departments to say what they do with their whole portfolio, because there is a tendency for departments to use a lot of words. Instead, I would like departments to say how new proposals for spending change will contribute directly to the Executive's wider objectives. In other words, the strategic objectives should drive specific decisions. In the documentation that I have seen, I am not sure that that is particularly well documented.

**Dr Murray:** We could ask the Executive to produce more rigorous information.

**Professor Midwinter:** I happen to know that the Executive is tightening up the management of that issue in this round.

On the argument about inputs, outputs and outcomes, the reason why we sought agreement to produce the paper was that few of the measures that the Executive uses relate to outputs, as I define the term. The measures are presented to us as outcome measures but, as we

know from examining them, they are problematic. One cannot tell what has caused an outcome to change because all sorts of other factors are involved.

When the Finance Committee in the previous session of Parliament pursued ministers about what extra money for police bought, the short answer was that the money was expected to cover pay and price increases and to allow an improvement in service. However, that outcome was never quantified. That is why I want the Executive to give outputs. If the Executive does not set output measures as its targets—most of the targets are not outputs—it is perfectly reasonable for the committee to ask questions about the outputs based on the data that are in the public domain.

The new annual expenditure report will have a section that reports progress on the targets in the budget, most of which lean towards being outcome based rather than output based. That means that the issue will come back to the committee in the last week in March or early in April. I am aware that several kinds of targets are used, but it is my job to monitor the ones that are used in the budget. As part of the new format for the AER, the Executive will provide the committee with a report on progress against the targets that have been set in the budget documents.

**Ms Alexander:** Since the committee considered the issue previously, in the rest of the UK, the Office for National Statistics has moved ahead and has come up with experimental measures that do not use employment as a proxy for outputs. The Executive should at least match the sophistication that is being achieved in England—no doubt it intends to do so—and ensure that, on a comparable timetable to the rest of the UK, we move away from using employment as a proxy. There are experimental measures in England, and some for the UK, but there are no Scottish equivalents. I want us to pursue the timetable on which that will happen. Progress has been made in the rest of the UK on the measurement issue since the committee last considered the issue. I want to ensure that we are not in the slipstream.

On monitoring, while the Executive will tell us how it is doing against targets, critically targets in England are set by the Treasury and are then negotiated with departments. There is a lack of clarity in Scotland because targets are set departmentally. The draft budget document has 153 targets, but they are set by departments, not by the Finance and Central Services Department. I recently asked a question about the performance and innovation unit; I was told that it has two full-time employees, although it can draw on others, and one outside expert who works for one and a half days a week. One hopes that that work will be

complemented by consideration of how the 153 departmental targets are set.

We need clarity about the difference between how Treasury public service agreements are set and monitored in the UK and how we monitor targets in the Scottish context. We need to know about the nature of the sanctions regime in Scotland. We should write to the Executive to ask it to draw the UK analogy and to tell us, in relation to the business of the total amount of money that is spent and how we consider outputs, where we differ and why.

**Professor Midwinter:** I think that we are at cross-purposes. What Wendy Alexander, wearing an economist's hat, regards as an output measure, is different from what I, wearing a budget analyst's hat, regard as an output measure. I know that economists have a measure that they use, which they call output, which is linked to traditional economic analysis, whereas what I would call an output is what is bought for the money, which is not quite the same thing. I do not know whether the Finance Committee or the Enterprise and Culture Committee should ask how the Executive measures output. It certainly does not use that approach in the budget documents, although it uses it in wider economic planning documents.

**Ms Alexander:** I realise that this is a technical point and I do not want to pursue it here. I am simply saying that, as I understand it, the ONS in England has reached agreement in the budget areas of health and education about the definition of what constitutes an output and what constitutes an input. I am anxious to ensure that Scotland is pursuing those common definitions of what we would all regard as appropriate output measures on the same timetable as is the rest of the United Kingdom. I am not suggesting that we move beyond what the ONS has done; I simply want to ensure that we are not in the slipstream of it over a prolonged number of years.

**The Convener:** I suggest that we ask Ross Burnside to examine what is happening in England and to gather together the information so that we can see how we can progress.

**Ms Alexander:** It would be helpful for us to write to the Executive to ask how inputs and outputs are being measured in England in major public services in health and education—we could forget the outcomes and refer just to outputs and inputs—and how they are being measured in Scotland. We could ask whether there is a discrepancy and, if so, why and for how long it will persist. It would be helpful for us to get the Executive to do the legwork.

**The Convener:** There is agreement round the table on that, so perhaps we can work out a way of doing what you suggest.

**Jeremy Purvis:** I support that suggestion. I would also like to ask the ONS what it is doing with regard to sample data and the size of samples. On low-pay issues, which affect my constituency and probably Elaine Murray's constituency, there are small sample sizes for the data that are extrapolated.

Other members have welcomed the briefing paper. I would have preferred the paper to have come not from SPICe, but from our adviser with the support of Ross Burnside. I am a new member and I am sure that other SPICe briefings raise what are termed matters of concern or other questions, but I am not sure that SPICe is the proper vehicle through which to do that. That aside, I acknowledge that the briefing is a level 1 paper, given that it states on page 1:

"it is a background paper with limited information at the beginning of a comprehensive budget review exercise."

That is certainly the case.

I wonder whether we can use the paper as the basis to drill down into the issues that Elaine Murray raised at the start. I have a long-standing concern, which is on the record, about the focus being purely on the size of budgets and on making a direct link between that information and the extent of the Executive's commitment. For example, in relation to prisons, it could be said that the news that UK prisons are at capacity means that there will be a bigger justice budget. However, that would not necessarily mean that the Executive's or the Government's commitment on reducing crime was being met. Likewise, on health expenditure, there might be fewer procedures in the future, but they could be more expensive, because of greater technology.

I am not sure that concentrating on the paper too much will give us the answers that we seek. On the health side, it struck me that part of Andrew Walker's evidence to us was that he has seen that more work be done on early interventions, in which case smaller budgets could reflect better the Executive's commitment. I am not sure whether we can absorb elements of that in the kind of level 1 paper that we are talking about, or whether when we get to level 2 and beyond we can determine exactly what the policies are. That might be a role for the subject committees to perform when we progress our inquiry.

11:00

I support fully our getting to the heart of housing issues. From the committee's previous discussion and the follow-up on it with the SFHA and others, I know that housing is important, especially given that the financial year 1997 was an historical low in spending that was followed immediately by an historical increase. I thought that that was the

period in which there was a spending freeze in the Labour Government's first years. There is a prospect of our having an altogether much closer look at housing. Quite a lot of anomalies are showing, which we are just beginning to consider.

A matter of concern that has been raised in the press and elsewhere is whether the enterprise budget reflects the Executive's number 1 priority. In round figures, of the £2.4 billion enterprise and lifelong learning budget, £1.7 billion is for higher education, further education, structural funds and other matters that could easily come under different categories. The work that we need to do in our cross-cutting review should give us a much better idea of all the policy areas that impact on the set target for growth.

This is the start and I hope that we can move on quickly from level 1. There are important things for us to do now. At our away day in Motherwell, we raised the issue of the performance and innovation unit—we even discussed its title. We are unearthing quite a lot about that unit. I reiterate what I said at our previous meeting about taking forward the budget process. I would like the committee to receive evidence from witnesses from that unit, who should explain or give us a presentation about what the unit does. There is a lot of scope for work for us.

**Professor Midwinter:** I am always conscious about not straying into subject committees' remits. It would probably be more appropriate for the subject committees to consider many of the issues that Jeremy Purvis wants to be considered, if they are considering that level.

However one seeks to defend what the Executive has done, the Parliament does not have a systematic statement of the Executive's priorities or a statement of how the Executive believes it is meeting those priorities. That is unlike the Treasury, which has quite a clear statement of priorities in the spending review. As a result, we receive replies like the one that appeared in a newspaper yesterday, which almost inferred that the Executive is spending a lot of money through private finance initiatives and that therefore the document should not be considered in isolation.

"Building a Better Scotland" is a budget document with clearly stated spending priorities that came to the Parliament for approval, albeit that I think there are too many priorities. If the Executive says to us that we are not assessing the document fairly, it must tell us how it measures its performance and success in meeting its spending priorities. I am talking about the Executive's language, and I am simply going back to what it said that it would achieve. We are talking about a new financial management system that was going to help the Executive to target its priorities effectively, but whenever we try to examine the

system, we have difficulties. If the Executive is saying that spending less on something is a good way of dealing with a priority, that is fine, but the committee should have a framework through which it knows what the priorities are and how success will be measured in meeting those priorities. Currently, we do not have such a framework.

**Jeremy Purvis:** I want to move forward from the paper. There may be situations in which the Government is spending less as a result of the success of a policy—for example, because there is less need, because people are healthier, because there are fewer people in prison, or because of any of a range of things. In such situations, it could be said, fairly, on a level 1 analysis, that the Executive is not giving priority to something that appears in the budget priorities. However, I would have thought that the committee's work would be to hold the Executive to account in reducing expenditure and reducing need in certain areas.

**Professor Midwinter:** There is no problem with that. When the Executive makes its new budget proposals, it should make such changes clear and provide an explanation for them. If spending falls because a policy has been successful, that should be reported to the committee. Currently, we do not receive information that is as clear as we would like about the reasons for such changes.

**Jeremy Purvis:** But that would mean a huge distortion of trend data without our having the ability to analyse them. If the Executive put together a table that showed simply a big increase and then a decline, we would say, "This Government is not as committed to this area as its predecessor Government was." However, the Government might have been more successful than the previous Government, which would be shown in the reduced amount.

**The Convener:** To be fair, whatever data are produced, they will always require to be interpreted.

**Professor Midwinter:** They need to be interpreted and explained.

**The Convener:** That is the reality. What Jeremy Purvis is suggesting is not incompatible with what Arthur Midwinter is suggesting. Arthur Midwinter is saying that we need a better basis for the information that is produced, so that it is clearer and more coherent and can be measured in a comparative way from year to year against what happens elsewhere. Jeremy Purvis is saying that we should not rely on the numbers, but must look at what is beneath them.

**Professor Midwinter:** That is why I said that all that the figures do is to raise a lot of questions. The purpose of the evidence-gathering process is

to allow the committee to probe the ministers accordingly. Any significant changes, such as those that have been described, should be reported in the budget documents. If spending falls because a policy has been successful, the Executive should make that clear rather than just include the figures.

**Mr Brocklebank:** Let us return to the business of measurement and what we get for the money. I am looking specifically at the statistics that we have been given on health. I understand that Scottish spending on health is about 30 per cent more than spending on health in the rest of the UK. Looking at the figures, one could say that the reduction in general practitioner and hospital patient numbers between 1999 and 2002 reflects the success of throwing all that money at the problem. On the other hand, that reduction could have as much to do with the fact that the population is decreasing generally.

Arthur Midwinter stated that health in general appears to be improving in Scotland, but it is difficult to know whether that is true. We still have battles in the chamber in which one party says that waiting lists have gone down while another party says that they are going up. It is difficult to quantify whether we are having success in tackling Scotland's health problems. Tantalising questions are posed by the fact that, although the numbers appear to be decreasing while money is being thrown at the problem, we have no way of tying up whether the money is being spent correctly or whether it is achieving the desired effect.

**Professor Midwinter:** The correct figure for the health spending excess in Scotland is now below 20 per cent. I cannot remember the exact figure from the GERS figures that were produced last time, but it is not 30 per cent.

**Mr Brocklebank:** I had heard that the figure was 30 per cent.

**Professor Midwinter:** The figure has been falling for several years, probably because of the increase in health spending in the UK budget. I am sure that the figures that we were given in May showed that health spending in Scotland was 17 per cent above health spending in the rest of the UK.

There is a difference between the operation of the health service and health issues such as how quickly waiting lists are being reduced. I thought that the data on health showed fairly clearly that there had been general improvements in all the health priorities, although there had been no progress in relative terms within the UK. The figures showed that, although our overall health is improving, relative to the rest of the UK, we still have more ill health in Scotland. The question is whether that is a sign of the misapplication of

resources or a sign of greater health needs because of poverty or whatever. The situation is complicated, and the issue of waiting lists should be kept separate from the issue of how healthy people are.

**Mr Brocklebank:** What about population decline? Could that have an impact? If there are fewer people in Scotland, fewer people will be going to the doctors and into hospitals.

**Professor Midwinter:** That is certainly the case for our schools, and I guess that the same is true of the number of patients who are being treated. I would expect the effect of population decline on the health service to be less dramatic than its effect on schools because of the growth in the number of elderly people, who are the most frequent visitors to GPs.

That is why I was keen to show what information is in the public domain and the need for the committee to move to more detailed questioning of ministers on it. It would be useful to hear an explanation for the numbers. All that Ross Burnside and I have done is to bring together the numbers. It would be useful to hear why fewer patients are being treated. Are people getting better treatment as a result, or is it simply the case that fewer patients are being dealt with?

**The Convener:** I want to draw this discussion to a close. We have had a productive discussion and the committee has warmly received the paper, which is a useful ground-clearing exercise. The issues that have been raised and the information that we have got will help us to question ministers and other witnesses over the next period.

I suggest that we pick up the points that Wendy Alexander raised about the questions that we want to ask the Scottish Executive. There is also the issue that Jeremy Purvis raised about getting people from the performance and innovation unit before the committee as witnesses. We have taken a decision about our expert witnesses, but I am quite happy, if members wish, to bring people from the unit before the committee. Do members agree to that?

**Members** *indicated agreement.*

**The Convener:** I thank Arthur Midwinter very much for his paper.

**John Swinburne:** I would like to ask Professor Midwinter to make one final observation. The Treasury down south is under immense pressure because of the war that is continuing out in Iraq. Does Professor Midwinter foresee that having an impact on Scotland's economy as a result of there being less money available to come up here, which would make our job more difficult to do?

**The Convener:** I do not think that that is a question for our expert adviser on the Scottish budget. It is a political question.

**Fergus Ewing:** It is a very good question.

**The Convener:** It is not really a question for Arthur Midwinter.

**John Swinburne:** I would have thought that he was fully competent to answer it.

**Fergus Ewing:** Perhaps he wants to answer it, convener.

**The Convener:** We shall move on.

## Item in Private

11:11

**The Convener:** Under agenda item 2, we must decide whether to consider a proposed contingent liability in private at our next meeting. A contingent liability, as its name suggests, is a liability that is not certain but contingent on some event, the most obvious cases being guarantees or indemnities. I ask members to agree to that item being considered in private because I understand that there may be some on-going negotiations in relation to the liability. However, if negotiations are concluded in time for 23 March, it is my intention to take the item in public. Are members agreed?

**Members** *indicated agreement.*

**The Convener:** The final two agenda items will be taken in private.

11:12

*Meeting continued in private until 12:26.*



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