

# **FINANCE COMMITTEE**

Tuesday 25 May 2004  
(*Morning*)

Session 2

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## FINANCE COMMITTEE

### 16<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)

#### THE FOLLOWING GAVE EVIDENCE:

Richard Dennis (Scottish Executive Finance and Central Services Department)

Tavish Scott (Deputy Minister for Finance and Public Services)

#### CLERK TO THE COMMITTEE

Susan Duffy

#### SENIOR ASSISTANT CLERK

Terry Shevlin

#### ASSISTANT CLERK

Emma Berry

#### LOCATION

Committee Room 1



# Scottish Parliament

## Finance Committee

*Tuesday 25 May 2004*

*(Morning)*

[THE CONVENER *opened the meeting at 10:16*]

### Point of Order

**The Convener (Des McNulty):** I welcome committee members and members of the press and public to the 16<sup>th</sup> meeting in 2004 of the Finance Committee. I remind everyone to turn off mobile phones and pagers. We have received apologies from Ted Brocklebank. Jim Mather has unexpected urgent business and is unlikely to get to Edinburgh in time for the bulk of the meeting.

**Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP):** On a point of order, convener. I have raised this matter privately, both earlier this morning and in correspondence with you—I first e-mailed you about the matter last Tuesday.

The committee carried out a fairly substantial piece of work on the finances of the water industry, which led to a report. In the committee's private discussions on the report, Jim Mather, John Swinburne and I expressed dissent on some aspects of the committee's conclusions and said that we wished to produce a minority view. The discussions were in private, but my understanding was that the minority view would be incorporated in and published alongside the report of the majority in the committee. When, to my surprise, the minority view was not published in the report, I suggested to the convener that it could be included on the committee's website. I did so because Jim Mather and I received inquiries from interested parties who wanted to know where the minority view was, because they could not find it on the website.

My request is simply that there be an agenda item at next week's meeting to discuss the issue. As I understand it, your response, convener, has been to decline that request—at least, you certainly have not agreed to it—on the basis that the advice from the clerk is that publishing the minority view would be incompetent under the rules that govern the committee's proceedings. In my view, that advice is incomplete, because there are precedents.

John Swinburne, Jim Mather and I have asked that the committee debate the matter at next week's meeting. In the five years that I have been

a member of the Parliament, I have made requests sparingly for matters to go on agendas—I have done so only once in this session of Parliament in the Finance Committee. We do not overburden you with unreasonable or numerous requests. If three members of the committee ask that we debate a matter, that is a legitimate request.

There is no agreement about the procedures. As always, I respect the advice that we have received from the clerk, but I believe that it is incomplete. I hope that we will discuss the issues at next week's meeting. If we do not, I am afraid that serious questions will be raised about how we promote minority views in the Parliament. At the moment—if your ruling and the guidance that you describe are correct, convener—minority views are not promoted on the website. However, I believe that we should respect such views and that, when they are expressed in the context of major reports, they should be incorporated on the website along with the majority view.

I hope that we will have an agenda item to discuss these serious issues next week. It may be that the committee cannot reach a conclusion and that after our discussion we will have to refer the matter to the Conveners Group—so be it, but we are in the Parliament to express our views in public and I believe that we should do so on this occasion. I have no regrets about raising the matter, because fundamental issues are at stake about whether parliamentary committees operate for the Parliament or to express the views of the Executive parties. I intend to pursue the matter, but I hope that members will afford me and my two colleagues the courtesy of having a proper debate about it next week. Had my initial request been agreed to, we would have saved the time that has been used in this contribution today.

**The Convener:** I treat the matter that Fergus Ewing has raised as a procedural issue and I respond to it in the following terms. I do not think that the clerk said that the matter is incompetent. The issue concerns the application of the "Guidance for the Operation of Committees", the second edition of which was published in 2003. Paragraph 16.9 of that guidance states:

"There is no provision for the production of minority committee reports, although dissenting members have occasionally produced their own papers."

There are precedents for members doing that, but there is no precedent for a committee publishing a minority or individual report. In this instance, the document to which Mr Ewing refers, which I understand is in the name of Mr Mather, was received two weeks after the committee agreed to its report. All the documentary information that was received prior to the committee agreeing to the report was incorporated into the report. The

advice that I have received, which I have checked and rechecked, is that there is simply no mechanism in the guidance for replying positively to Fergus Ewing's initial request, which was for the minority report to be published on the committee's website. That is my ruling.

During the past week or so, I have sought alternative mechanisms through which Fergus Ewing can address the procedural issues that concern him. It is, of course, open to him as a member to raise procedural issues and in this instance he needs to raise the matter with the Conveners Group, which is responsible for the production of the guidance for the operation of committees. If members wish to have a discussion that will allow the committee to make representations to the Conveners Group, that is a matter for them. Alternatively, the committee might decide, in the circumstances, that it does not wish to take the matter forward, in which case I presume that there would be no point in having a further discussion next week. I am open to contributions from members of the committee, other than me and Fergus Ewing.

**Fergus Ewing:** Can I clarify one point?

**The Convener:** I will let you back in at the end.

**Fergus Ewing:** Before the debate goes any further, I should clarify that my suggestion is that the view should be expressed as a minority view, for which there is ample precedent—that has happened several times. You said that doing that is not incompetent, so I want it to be made absolutely clear that the view can be placed on the website as a minority view.

**The Convener:** Fergus, I think that you are—

**Fergus Ewing:** I accept that there is no such thing as a minority report in standing orders, but there is a minority view and I ask for it to be placed on the website as such.

**The Convener:** Paragraph 16.7 of the "Guidance for the Operation of Committees" states:

"A number of mechanisms exist for reflecting minority views."

We decide, as a committee, how to deal with those views when we agree to the report. There is no basis on which we can go back and change the position after we have agreed to the report.

**John Swinburne (Central Scotland) (SSCUP):** I point out that the committee did not agree to the report unanimously. I stated from day one that I would not associate myself with the report and the forthcoming bill, because anything that disadvantages senior citizens will never get a vote from me.

**The Convener:** That was reflected in the committee's report and your view was incorporated in the text.

**Kate Maclean (Dundee West) (Lab):** Notwithstanding what we decide about this report, I want the convener to raise the matter on behalf of the committee at the Conveners Group with a view to getting some clear guidance. If there are rules, we should stick to them. I am unhappy about the amount of time that we are spending on the matter and I do not think that it does the committee any good to have such an argument publicly. Of course people's views should be public when they are different from the committee's majority view. There is no reason why they should not be published, but I think that this discussion puts everyone, including the staff, in a difficult position. I would like the convener to raise the matter at the Conveners Group, to clarify the rules and to consider whether they need to be changed. I do not see why minority views should not be published alongside majority views but, if there is a need for change, I would like the Conveners Group to examine the matter.

**Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD):** As I said in the private discussion, I am disappointed that the deputy convener has not reached an agreement with the convener on the matter. The approach that the convener outlined is the right one. I share Kate Maclean's view that this discussion does not do the committee any services. It is extraordinary posturing for Mr Ewing to seek to take up so much of the committee's time on a procedural matter, given that there have been opportunities to dissent or to advertise other views. If the procedural matter needs to be taken forward by the Conveners Group, I welcome that, but we need to get on to the more important agenda items.

**The Convener:** We now have two proposals: first, that we take up the matter with the Conveners Group as an issue of principle; and, secondly, that we return to it next week as an agenda item, which is Fergus Ewing's suggestion. What do members think about those two propositions?

**Fergus Ewing:** They are not alternatives. I fully support taking the issue up with the Conveners Group, but it was the Finance Committee that made the report and it seems to me that the starting point is here.

I am bound to say that several minority views have been published in the past—one example is the Social Inclusion, Housing and Voluntary Sector Committee's third report in 2000, on housing stock transfer. There is a clear precedent for the publication of minority views. It has been said that there is no such precedent and that that is the advice from the clerks. As I said, I respect the

assistance that we have had from the clerks—that is absolute. I am not criticising the clerks, but the issue is more complicated than meets the eye. If members are denied a debate on the basis of the convener saying that the clerks' advice takes precedence, that will be an unfortunate precedent.

I say to Jeremy Purvis that I expressed my dissent during the debate, as is minuted in the report, so it is wrong to suggest that I have not taken previous opportunities. However, the Social Inclusion, Housing and Voluntary Sector Committee's report provides a precedent. If the minority needs the consent of the majority to express its views in the Parliament, then the Parliament is not a Parliament but a plaything of the Executive. There are very serious issues at stake. Surely the starting point for a debate on the matter is the committee that dealt with it in the first place. We can pursue both options. We should start by debating the matter here and refer it to the Conveners Group thereafter.

10:30

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

Let us be quite clear. We would diminish the authority of the Parliament and turn it into a plaything by making up as we go along the rules for how members dissent. The issue is not the right to dissent, but how dissent is properly expressed within the procedures of the Parliament. The issue of the procedure for expressing dissent has been raised. That is not a matter for this committee, because it is not subject specific—it is a procedural issue and should be dealt with by the Procedures Committee. The two proposals that have been made are alternatives. I want to give no credence to the notion that we should diminish the authority of the Parliament by allowing dissent to be expressed willy-nilly, in any way that people wish. The way in which to protect the minority is to have clear rules about how the Parliament operates and to apply those rules.

It is important that the Procedures Committee clarify the procedure for expressing dissent and ensure that that happens within the rules of the Parliament and is not open to manipulation now or at any point in the future. It would be a mistake for members to pre-empt discussion at, or a decision by, the Procedures Committee by minuting dissent. There are two proposals and we should vote on them. The matter should be referred to the Procedures Committee, so that it can clarify how dissent may be expressed in accordance with the rules of the Parliament.

**Dr Elaine Murray (Dumfries) (Lab):** I agree with Wendy Alexander. I have no desire to spend large amounts of time in committee discussing this issue again. We have discussed the variety of views that members have taken on the Cuthberts'

original paper. It is right and appropriate that members should have the opportunity to express those views. At the pre-meeting, we were not apprised of the fact that a minority report had been published, presumably on the website. We are entitled to seek advice on the matter from the Procedures Committee, given that it has been brought to our attention again. I have no desire for the issue to be placed on the agenda for our next meeting. A considerable amount of the committee's time is already taken up by grandstanding and I do not want there to be further opportunities for that.

**The Convener:** I will make one important point of clarification. The precedent in the Social Inclusion, Housing and Voluntary Sector Committee to which Fergus Ewing referred related to an entirely different situation. The minority report that we are discussing was made available two weeks after the committee's report was agreed to. In the case of the Social Inclusion, Housing and Voluntary Sector Committee, members presented their minority views while the committee was drafting its report. In this case, members want to include a post hoc, additional element in a committee report after it has been agreed to. That has caused a procedural problem. It is clear to me that such a process could have very adverse consequences.

The majority of members want us to seek procedural clarification on the matter. In this instance, we should refer the issue to the Conveners Group, rather than to the Procedures Committee, because the Conveners Group is the custodian of the "Guidance for the Operation of Committees". The majority of members have indicated that they do not want the matter to be included on the agenda for next week's meeting. Is that the wish of the committee?

**Members indicated agreement.**

## Budget Process 2005-06

10:34

**The Convener:** Agenda item 1 is consideration of a paper on trends in capital spending over the past five years, which the committee asked Arthur Midwinter, our budget adviser, to produce. I think that the paper is excellent. Would you like to add to it, Arthur?

**Professor Arthur Midwinter (Adviser):** I will summarise the paper and take questions from members.

This is the final background paper for the committee's deliberations on stage 1 of this year's budget process and on the spending review. The context of the paper is the important change that the Treasury in London has introduced to promote and protect infrastructure investment by introducing resource and capital budgets. Although the figures for Scotland are indicative, the Treasury is attempting to eliminate what have been described as biases against capital investment. Given that such investment has been identified as a driver of economic growth, it is important that the committee should have a robust view on how the system has worked.

There are a number of problems of analysis, of the kind that we have often discussed. As a result, I cannot provide a consistent time series from 1999. The first problem is the staged introduction of resource accounting and budgeting and the changing definition of capital that accompanied it. Officially, only capital that adds to the value of the asset base of Government now counts as capital in the accounts. Capital grants to housing associations are no longer officially recorded as capital, although in all practical senses they are investment in infrastructure. I wanted to take a comprehensive view of the matter, but it was complicated further by the way in which the data on public-private partnerships, which have capital elements, are provided. I express my sincere thanks to Richard Dennis and his team in finance co-ordination for producing tables for the period from 2002-03 and putting up with my persistent efforts to get the data presented in the way in which I wanted.

The findings are fairly clear. First, there has been real growth in capital spending. We cannot calculate it precisely, because there are two different time phases, but the figure seems to be about 3.8 per cent—certainly less than 4 per cent—since devolution.

Secondly, the share of the budget consumed by capital spend grew during the first part of the period, but has fallen back a little since then. I explain that with reference to the slippage in the

water programme that we have discussed previously, which has been quite significant.

Thirdly, the recent publication of statistics by the Treasury in the public expenditure statistical analyses has enabled me to examine five years' data for outturn on capital spending in Scotland. Those data go wider than the Executive's budget and include spending by United Kingdom departments. They show a continuing growth in the Scottish share of total identifiable capital expenditure.

Fourthly, an examination of the application and workings of end-year flexibility reveals that a much bigger proportion of EYF is down to capital than to the resource budget. That is an important finding. If the committee and Parliament are as keen as the Treasury in London is to protect capital spending, we may want to do something about that matter.

I have raised three issues that we may want to discuss with the Executive. First, given the Executive's liking for targets and the fact that capital has been made a priority, I suspect that there should be a target for capital spending, but I could not find one. The UK has a target for capital spending as a proportion of gross domestic product. Secondly, is capital spending a priority? We have had numerous discussions about what being a priority means. It would be helpful if the Executive would state its position clearly. The only statement that I have managed to find in official documents is that the Executive wants to tackle the legacy of underinvestment in capital from previous years. Thirdly, because a high proportion of EYF relates to capital spending, ought there to be an arrangement in EYF that ring fences capital spending? I understand that at the moment any slippage can be used in both the resource and the capital budgets. That is how money managed to be lent to health, although it was used for recurrent budgets. The committee may want to consider that issue.

In conclusion, the findings on our performance on capital spending are reassuring, as the trends reverse decline that goes back at least 15 years. The growth in our share of UK total capital expenditure is an unexpected plus. However, the data that Richard Dennis and his team have produced ought to be regularly updated and should be provided in a time-series fashion. Perhaps they could be included in the spending review document that will be published in September, but we need to discuss that among ourselves and with the Executive.

**Ms Alexander:** Paragraph 3 of the paper suggests that consideration of capital expenditure is made problematic by the introduction of RAB and the resultant redefinition of capital expenditure. The paragraph continues:



"These constraints made it impossible to develop a single, consistent time series of capital spending over the period".

Is there a single consistent time series of capital spending for the rest of the UK? You suggest that RAB is a constraint, but RAB is a UK-wide financial accounting procedure that is used by all the devolved Administrations as well as by the UK Government.

**Professor Midwinter:** I do not know the factual answer to that. The most recent time series that I have seen, which covered five years, was on a RAB basis. I am happy to check that and to get back to you with an answer.

**Ms Alexander:** I make the point again that a diligent budget adviser should not need to do that. I suggest that we write to the Executive asking four questions: first, whether it is possible for the Executive to provide us with a single time series of capital spending over the period; secondly, whether such time-series data are provided in England and Wales; thirdly, whether the Executive intends to publish such time-series data for Scotland; and, fourthly, whether those will be made available annually as happens in the rest of the UK.

The problem is that the Executive is not meeting the financial issues advisory group's criteria on transparency and visibility. It is not for the Finance Committee to do the Executive's job in providing information about the Executive's accounts. I am grateful to Arthur Midwinter for his work, which gives us some useful pointers, but a piece of work by an independent budget adviser on the Executive's accounts will always be open to dispute. I would like the committee to write to the Executive to reiterate what we said last November and to ask the four questions that I mentioned. Frankly, we have been asking those questions for most of the past nine months, so the only way of getting an answer is to write to the Executive.

**The Convener:** The Deputy Minister for Finance and Public Services will be with us in three quarters of an hour, so we can pursue the issues with him orally and then follow them up in writing.

**Ms Alexander:** We can raise the issues with him today, but we should also write to clarify what I thought we had made clear in November.

**Dr Murray:** I was struck by Arthur Midwinter's comments on slippage in capital expenditure. To a certain extent, such slippage is to be expected because expenditure on capital projects can more easily slip than revenue expenditure. However, table 7 shows that the extent of slippage has varied. In 2001, slippage in capital expenditure accounted for 26 per cent of EYF. In 2003, the figure was 43 per cent—although that is partly due to Scottish Water moneys being lent to the Health

Department. Is it possible to track the extent to which slippage in capital expenditure is reallocated into revenue budgets as opposed to other capital programmes? It might be quite difficult to do that, as one would need to monitor who received spending review moneys and where those moneys were transferred to. I appreciate that that might not be straightforward.

**Professor Midwinter:** That would involve tracking individual items through the process. However, the data will be available in the supplementary estimates that the committee receives from the Executive on what moneys were transferred and how those were used.

**Dr Murray:** Given that revenue moneys can be spent more easily, it is worrying that there is a leakage of capital into revenue year on year.

**Professor Midwinter:** The data are not presented in that way, so a significant amount of work would be involved in going through the documents.

**The Convener:** Presumably, such an exercise would need to be done twice, because both budget allocations and outturn spending would need to be examined in order to work out how much capital expenditure is being lost.

**Professor Midwinter:** Yes.

10:45

**The Convener:** Another cause for concern is highlighted in paragraph 39:

"Overall, Scottish slippage was 4.6%, whilst the position in programmes in the UK was 3.7%".

The Scottish figure is almost a percentage point higher than the UK figure, so our performance on slippage is perhaps significantly worse. How much of that is down to Scottish Water issues? How much slippage would there have been if we took out the water factor?

**Professor Midwinter:** You are right to identify Scottish Water issues as one reason for the higher Scottish figure, but a second reason is that the comparison is with all UK spending rather than with block grant equivalent services. Budgets such as social security will experience low underspending, so the figures are not comparable. I included the figures because they appear in the Treasury's comprehensive spending review document and are the best figures available. However, the UK figure includes items such as defence and social security, so it does not represent a performance that is comparable to that of the block grant services that are the responsibility of the Scottish Parliament. I suspect that the difference in the range of services is another reason for the difference in performance.

**Jeremy Purvis:** Paragraph 45 suggests that capital expenditure should be ring fenced. It strikes me that, as paragraph 38 outlines, the current budget's capital programmes are in health, roads, water and local government but of those, only water has a direct link to the Scottish Executive, and the expenditure and delivery of that capital programme is, in effect, carried out by a third party. There are serious issues about the delivery of capital projects by agencies other than the Scottish Executive. How would we start trying to capture data on performance on capital programmes by health boards and local authorities? Would the process simply involve aggregating figures annually? A difficulty is that health boards present their annual reports at a different time from our budget scrutiny. I have asked ministers about that before and I will take up the issue with the minister later on.

**Professor Midwinter:** I understand that there is a monthly monitoring system for health expenditure. Despite what you said, health expenditure is more under the control of the Executive than local government programmes are. From memory, the figures that have been presented to us have seldom recorded a significant local government underspend. Presumably, that is because the range of local government programmes means that the block allocation can be moved quickly between programmes. From memory, I cannot recall seeing a big local government underspend within the totals.

**Jeremy Purvis:** The latest figures for local authorities show a considerable underspend. Some local authorities claim that different local authorities account for the money differently and that the figures do not reflect a proper underspend, but we need to get to the heart of the situation. The problem is acute in the roads budgets, which many constituents believe is a key area in which capital expenditure should be made. As parliamentarians and as a committee, we need to get a proper understanding of what the situation is on the ground, but that is problematic.

**Dr Murray:** Can we have clarification on whether the £250 million capital programme for roads that is mentioned in the paper is expenditure by the Executive's transport department rather than by local authorities? I presume that local authority expenditure on roads is included in the local government headline.

**Professor Midwinter:** There is a big central Government capital programme for trunk roads, motorways and large maintenance projects.

Sorry, what was Jeremy Purvis's question?

**Jeremy Purvis:** What measures can our committee take, working with the Executive, the Convention of Scottish Local Authorities and the

national health service, to try to get a more streamlined approach to the regular capturing of data so that we can start to link all the figures together and monitor expenditure? For example, you said that health expenditure is monitored monthly.

**Professor Midwinter:** I am not sure of the detail for local government. I would not be surprised if there were a similar arrangement for feeding back information through COSLA, so it is worth pursuing that. Part of the difficulty is the way in which the accounts are kept. What counts as an underspend in the Scottish budget documents might not be the same as what counts as an underspend within the local government budget, because if the Government passes the capital allocation, the spend and the grant to the local authority, as far as the Government is concerned, that is that money spent, whereas the local authority will always have a balance, or a surplus, in its accounts. As a result, we probably do not get an accurate picture.

**Jeremy Purvis:** Our inquiry is increasingly going to be about outcomes—sometimes, we will find qualitative outcomes—but we will not be able to scrutinise the next level down, given that the people who deliver those outcomes are at local government level, and, as far as the Executive is concerned, the money is spent. Many of the subject committees, especially the Local Government Committee and the Health Committee, indicated that that was our problem as a Parliament. We will touch on that issue later.

Would a trend for a much faster rise in public sector pay, which is a major aspect of the budget, change the overall perception of capital spend as a proportion of the budget?

**Professor Midwinter:** That would be relevant only in relation to dealing with slippage, as it would squeeze the rest of the resource budget. If a certain allocation was made to a department that spent more than had been assumed on public sector pay, the rest of that budget, rather than the capital budget, would be squeezed. That could be behind the example that we used of health heading towards an overspend and getting money loaned from water services. That is the sort of situation in which what you described could come into play, but initially such an approach should not squeeze the capital portion of the budget, given the allocations that are made now.

**Jeremy Purvis:** Would it affect the perception of the levels of growth, especially if we were making comparisons at a UK level?

**Professor Midwinter:** No, because growth is built around the public spending envelope. If public sector pay is greater than what is provided for in the budget settlement, it squeezes the rest of the

resource budget; it does not affect the total or the real-figures growth.

**The Convener:** Paragraphs 45 and 46 of your report are particularly important. Paragraph 46 amplifies the points that Wendy Alexander was making about the importance of engaging in debate and getting clarification about time-series data. The bullet points in paragraph 45 suggest legitimate questions for us to pose to the minister when he is before us and to consider in the context of our report. Given the amount of work that has gone into the capital report, in making our budget recommendations we might devote considerable time and space to capital issues, because they are particularly important, especially in the context of the spending review. We need to consider further a lot of the issues that are flagged up in the report. As you will draft our budget report, it would be helpful to send you that signal, if that is what we want to do.

**Professor Midwinter:** I have a final point to make on the issue that Wendy Alexander raised. We are talking about the data that are available to me as a researcher. I am aware that there are time-series data on capital in the UK spending review documents, which the Treasury will move to whichever price base it is working on in a given year. The difficulty for me in producing the report was the absence of a consistent basis on which to make the calculations from the documents that are in the public domain. I am quite sure that finance colleagues could provide the information in the form in which you are seeking it—by saying that, I am not trying to give Richard Dennis too much work.

**The Convener:** There is a procedural matter to which we might want to draw attention. In the past, we have published documents such as Arthur Midwinter's report along with the committee papers. The downside to that is that sometimes the press runs commentary on the papers before committee members have had a chance to discuss them, and sometimes that commentary is not particularly well informed. In that context, I wonder whether it might be helpful in future to consider publishing such papers on the day of the meeting, so that the press gets due access to them, but does not get the opportunity to comment on them in advance of members doing so. Do members agree to that suggestion, which is intended as a courtesy to them as the first recipients of information that is prepared for them?

*Members indicated agreement.*

**The Convener:** Good. That concludes agenda item 1. Given that the Deputy Minister for Finance and Public Services is here, I suggest that we move to agenda item 3 to take evidence from him. We will return to item 2 after that. Is that acceptable?

*Members indicated agreement.*

**The Convener:** The third item on the agenda is our final evidence-taking session on stage 1 of the budget process. It is unfortunate that Andy Kerr is unavailable today, because of a prior engagement. I welcome Tavish Scott, the Deputy Minister for Finance and Public Services, and thank him for coming here at short notice. With him is Richard Dennis, finance co-ordination team leader from the Scottish Executive Finance and Central Services Department. I propose to invite the deputy minister to make an opening statement; I will then open up the meeting to questions.

**The Deputy Minister for Finance and Public Services (Tavish Scott):** Thank you, convener. I apologise for the fact that Andy Kerr is not able to be here this morning and that instead you have the humble deputy—I will do my best. I have seen the length of your agenda—I was interested in your earlier discussions this morning—so I will just give you a little flavour of where we are with some of the issues that the committee and its adviser have raised.

I have read a lot of the subject committee reports—although not all in great detail—and there appears to have been some confusion about the changes that, together, we have been trying to introduce to the budget process. In particular there are frequent requests from committees for information that is already made public in other documents. I would welcome the committee's thoughts on whether the Executive can do more to help to explain the process in future years.

When we spoke last week, convener, you suggested that it might be helpful for me to expand a little on the use of targets and priorities. As the committee will be aware, in the annual evaluation report we specifically asked for comments on how our current targets could be improved. We did that for two reasons. First, the existing targets set out what the Executive aims to deliver with the spending plans that were agreed in the previous spending review. We are now into a new spending review and in September we will announce new spending plans for a further two years to 2007-08, which means that we need to review all our targets. I have seen the record of the evidence given by your expert witnesses pointing out the variable quality of the existing targets, and I think that it is fair to say that all my colleagues will admit that there is room for improvement. I share the concerns that several of the subject committees raised that we need to do more to link the targets to the budgets of the programmes that are aimed at delivering them.

Secondly, I know that there is also much debate about the right number of targets to allow meaningful scrutiny. I have seen the arguments both for more targets and for a more limited

number of key indicators. The Executive is aiming for a number somewhere below 100, compared to the more than 140 targets in the current AER. If the number was too far below that ballpark figure, large areas of the Executive's spending would not be covered. If the number was too far above it, it would become hard for meaningful strategic scrutiny to take place. It will always be about striking a balance. That is not to say that there should not be more detailed targets for individual policy areas, but we should be selective about those that are included in the highest level monitoring.

I am aware that we have some way to go on targets and, if anything, we were a bit disappointed to learn that your adviser's research has suggested that there are no obvious models in other countries from which we can learn—we look forward to that kind of advice—and that it would appear that we are as far advanced as is anyone. I would welcome it if the committee decided that it wanted to consider that issue in more detail in the coming year, depending on its work plans and thoughts.

11:00

Before moving on to the priorities, I note the fact that the subject committees' reports contain, as ever, a large number of requests for yet more information and increased spending. However, as ever, there are no suggestions of where spending could be cut back or where information that the committees no longer find useful could be cut back. In future, subject committees might suggest areas in which we could sunset information that they no longer find useful, as we are often accused of providing too much information. It would certainly help us in our processes if some consideration could be given to what is genuinely not helpful in the scrutiny of Government priorities and spending.

The Finance Committee has raised two issues with us about priorities. The first concerns how much should be read into the change in priorities between the publication of "Building a Better Scotland", the publication of the partnership agreement and the overlap between the two in the AER. It is one of the inevitable costs of democracy that spending review cycles and our election cycle cut across each other, and elections—particularly those that are followed by negotiations—bring changes to medium-term spending plans. As the AER reports on plans and targets that were set out in "Building a Better Scotland", there is inevitably some tension between looking back to report on the priorities that were set then and looking forward to our current priorities, which are set out in the partnership agreement.

The committee also asked me to set out how we take our priorities into account in setting our

spending plans and how far it should be possible for that to be reflected in our budgets. At one level, that is fairly simple. Our priority for the current Parliament is, demonstrably, to deliver the partnership agreement, which sets out more than 400 detailed specific commitments. All those commitments are costed and, last September, we made necessary additional allocations for the period up to 2005-06. We will do the same for the life of the current parliamentary session as part of the spending review, and we have said that we will publish an assessment of whether we have honoured those commitments as the session draws to an end.

Those specific commitments are grouped under four challenges, of which the most important is growing the economy, and we take them into account in a different way. Andy Kerr and I have already started to discuss with other ministers what different spending review outcomes might mean for their portfolios and, last month, he set out for the committee how we are looking to realign funding. Part of that is a robust discussion with colleagues about how far their portfolio spending can be slanted to focus more on the key priorities. Growing the economy is not just about a single spending programme; it influences our choice of programmes so that, when we are faced with two spending pressures, we give higher priority to a programme that brings benefits in that area. It also influences our choice of how programmes are implemented—for example, in limiting the negative impact of how we choose to meet new environmental standards.

Members will know that budget allocations are always a matter of negotiations. I hope that the committee will agree that we should not be judged against budget allocations but by the outcomes that are delivered through those budgets. I am pleased to note the fact that some of the subject committees took the opportunity to set out their views on the priorities within individual portfolios.

I have two brief comments to make on the paper that you have just been considering on trends in capital spending, which I found a very informative read. First, we will publish a detailed capital investment plan in the autumn, which will set out our long-term investment strategy as the paper recommends. Secondly, the committee will be aware that we are delivering an increasing amount of investment through PPP schemes. The figures that we have provided to Professor Midwinter are the estimated payments due under PPP contracts for the years in question. That is not the same as a measure of the capital investment that is being delivered. The estimated payments will continue across the lives of the contracts, whereas the capital investment is usually concentrated at the start. A rough estimate is that the capital investment that is being delivered by PPP in our

current plans will peak at around £1 billion in 2005-06 and 2006-07 and tail off thereafter. More accurate figures will come in the investment plan when it is published in the autumn.

Finally, several of the subject committees' reports suggest that we should set out our spending plans by cross-cutting themes. As we have previously discussed, I have some sympathy with the idea that we ought to be able to provide better information on spending across the Executive on key themes such as poverty and rural issues. However, the place to do that—as some of the documentation illustrates—is not in the budget documents, which are preparation for the budget bill that has to be organised by department to allow for proper audit and accountability. We have committed ourselves to setting out how we will respond to the committees' recommendations as part of the draft budget, to allow that to be the focus of stage 2 of the process, and we will cover the other issues that the committees have raised then.

I am happy to answer any questions that committee members may have on the process.

**The Convener:** Thank you very much, minister.

**Fergus Ewing:** Good morning, minister. I would like to mention some of the issues that are raised in the Health Committee's report. I will not blind you with statistics—were that possible—but will raise some rather practical criticisms that have been expressed by the Health Committee.

The Health Committee has expressed a concern that, although extra money becoming available during a financial year is always welcome, that makes it extremely difficult for health boards to plan ahead. In paragraph 10 of its report, the committee acknowledges the injection of

“an extra £30 million just before the end of last financial year”.

You referred to the purpose of the allocation of that money at a previous meeting. However, the Health Committee points out that, by and large, health boards are not able to produce their financial plans for 2004-05 until the end of the first quarter. That is obviously not satisfactory from a budgeting point of view.

The Health Committee also points out:

“In his oral evidence to the Committee, the Minister stated that he thought the current financial year was unusual”.

However, that appeared to be contradicted by no less than the chief executive of NHS Scotland, who stated that

“the financial situation of the NHS in the present year gives a fair indication of what we can anticipate next year”.

There appears to be a difference of perspective between the minister and the chief executive of

NHS Scotland. Do you accept that it is a basic problem that, if health boards cannot plan their budget prior to the beginning of the financial year, they are bound to end up having severe budgetary problems, as is the case in some health boards in Scotland?

**Tavish Scott:** I accept that the numerous allocations that are made to individual health boards in the course of the financial year do not necessarily help the budget-setting process. However, the committee may wish to reflect on the number of those allocations that are planned. Individual health boards may not be aware of the precise amount of those allocations but, given their historical perspective of the way in which the budget process works between central Government and health boards, I would be surprised if they were not at least conscious of the fact that allocations were planned. I would also be surprised if the directors of finance of the health boards—and their boards at their monthly meetings—were not being provided with budget information to a considerably detailed level.

That is my understanding of the process. Nevertheless, we will consider the points that Fergus Ewing and the Health Committee have raised and discuss them with the Minister for Health and Community Care in the context of the general proposition that all health boards should be clear about their budget at the start of each financial year. I would be supportive of that general approach.

**Fergus Ewing:** I accept the basic premise that health board finance executives are aware that there is going to be provision; however, they do not know how much that provision is going to be. The Health Committee describes the allocations as “non-recurring ‘bail outs’”, which seems a fairly accurate and understandable phrase. The committee points out that, in several cases, health boards

“are not sure how they will spend their money in the current financial year, let alone next year.”

That seems an entirely unsatisfactory situation for health boards, many of which have a budget that is the size of that of a relatively small Scottish Executive spending department.

I know from my extensive dealings with Highland NHS Board—where excellent people are involved, who have great skills, ability and commitment to the NHS—that it has found the plethora of new developments on the consultant contract, the general practitioner contract and so on extremely difficult to cope with from a budgetary perspective.

That is why I thought that I would take the opportunity to underscore the difficulty of the task that health boards face and the inevitability, if you like, of budgetary problems arising if a substantial

health board with a massive budget does not know at the beginning of the year what its budget will be. I am not suggesting that there is a simple answer, but I hope that the Executive will take the issue most seriously and try to find a method of ending the non-recurring bail-out problem and the difficulties to which it gives rise.

**Tavish Scott:** A lot of what Fergus Ewing said is fair comment. I will separate out the clear understanding that I hope all health boards have of their core budget on a year-to-year basis from the additional allocations that are made during the course of the year—as we discussed previously, many of those allocations would be planned, but perhaps health boards would not be aware of the precise amounts involved—and from the impact, which Fergus Ewing fairly raises, of the GP contract and the consultant contract.

In the same way as Fergus Ewing discusses the matter with his health board, I am sure that we all discuss with our health boards the impact that the contracts have had on the boards' salary budgets: they have clearly created significant challenges. I take the general point that we must look as closely as we can at the manner in which the matter is taken forward and seek to tighten the process so that there is as much predictability as can be achieved. As I said, we will certainly do that with our ministerial colleagues in the Health Department.

**The Convener:** Can you be more specific than that? I deal with two health boards in my constituency and it seems to me that there appeared to be a lack of information and understanding at health board level, and perhaps also at ministerial level, of what the financial and organisational implications might be, not so much of the GP contract, but certainly of the consultant contract. That raises questions about not only budgetary issues but management issues within the health service or between health boards and the Health Department.

I find it hard to understand why the Health Department has a separate financial management system from the rest of the Scottish Executive. We do not seem to get adequately clear information about advance health planning in terms of economic projections—a different culture seems to exist in the Health Department and a different approach seems to be adopted.

Given that the Health Committee has been making broadly the same points for two or three years, action is required, rather than warm words. Health is the largest item in the Executive's budget, but the basic rules of financial planning do not seem to be adequately applied to it. That makes the budgetary process rather difficult to sustain. Quite a resonant message must come from the Finance Committee and the Health

Committee on the issue—the detail of that message will have to be in our report, but I certainly have genuine cause for concern, as do, I suspect, other members of the committee, about that.

**Tavish Scott:** We will be happy to respond formally to the points when the Finance Committee makes its report, and we will reflect on the points raised by the Health Committee.

I presume that the convener recognises that the GP contract and the consultant contract were negotiated nationally across the United Kingdom and that thereafter both the Scottish Executive and health boards had to plan on the basis that the negotiations had happened nationally. The consequential decisions that had to be taken in relation to budgets were followed through.

We will consider the wider points that have been raised. The convener may find this surprising, but I am always keener on action than warm words. We will take that challenge very seriously.

11:15

**Ms Alexander:** I will make the challenge very precise, so the minister may want to write to the committee on this issue. Although I accept what the minister says about the contracts being negotiated nationally, there were of course discretionary elements in all three of them—the GP contract, the consultant contract and the junior doctor contract. I do not expect the minister to be able to answer my questions today, but I would welcome a letter that confirms several points.

What is the estimated additional cost associated with each of the contracts? We know that it was of a very large magnitude. My next question relates to the point that the convener made. We know that that there are discretionary elements in all three contracts. Was there any review by finance colleagues, before or after the discretionary elements were signed off by the Executive, of whether those discretionary elements represented value for money relative to the way in which the discretionary elements were dealt with in the rest of the UK? That goes to the heart of the matter because we had a three or four-hour session about a month ago in which we examined the whole performance management regime that is in place. Was any part of the performance management regime involved in reviewing—either beforehand or subsequently—whether the way in which the discretionary elements were agreed in Scotland represented value for money relative to the way in which they were resolved in the UK? I realise that that is not a matter for the committee, but given the degree of anxiety expressed by health boards, other committees and so on, it is a good test of how the extensive performance management system that we heard about

operates in relation to the enormously large, additional and, to some extent, difficult-to-quantify element of the budget. The minister is aware that there are anxieties about how the discretionary elements were negotiated. It would be helpful to know whether there was even a look at the issue in advance or subsequently.

**Tavish Scott:** I am happy to take up the challenge to write to the committee on the issue. I do not have that information with me, but we will put the response in writing.

**Ms Alexander:** Surely your head of finance can tell us now if anybody examined whether that represented value for money before the deal was signed.

**Richard Dennis (Scottish Executive Finance and Central Services Department):** I am grateful for the promotion.

**Ms Alexander:** One would hope that the most senior person is sent with the deputy minister when we are discussing stage one of the budget, especially given that we have been deprived of the minister. I hope that Richard Dennis is the most senior official, but he may not be. Having the most senior official before us would seem to me commensurate with the matters under discussion.

**The Convener:** As I understand it, part of the problem is that there is a separate finance department within the Health Department.

**Ms Alexander:** Let us get clarity on the matter. As I say, Richard Dennis was at the committee a month ago and sat through our discussion on the performance management regime. Did it operate on this occasion—before or after the discretionary elements were signed—or is it a separate process that does not apply to health?

I genuinely do not know, but I am picking up a degree of anxiety in the sector about discretionary costs in Scotland being higher than they are elsewhere.

**Richard Dennis:** Rather than answer the question off the cuff, I will check the records and let you know exactly what assessment was carried out.

**Ms Alexander:** Fair enough.

**The Convener:** Fergus Ewing has a supplementary question.

**Fergus Ewing:** I want to raise one specific point with the minister. By way of introduction, I mention that we heard last week the rather ridiculous claim from the Conservatives that the health service was somehow Stalinist, which I thought was one of most hyperbolic comments that we have heard in Parliament.

There were strings attached to the extra provision that was made at the end of the financial year: the money had to be used to tackle waiting

times and waiting lists. Is the minister at ease with the concern about that? The concern is that the clinical judgment of surgeons is being supplanted by a budgetary system whereby, for example, certain patients are treated in private hospitals and certain non-fatal elective surgery—such as vasectomies—is done to bring down waiting times and reduce waiting lists. Do you accept that there is genuine concern among many consultants that the degree of centralisation that results from financial strictures is in danger of supplanting proper clinical judgments about how patients should be treated and about the priority that should be accorded to the treatment of one patient compared with another? I ask because serious concerns have been expressed to me locally. Although it is not the responsibility of the Deputy Minister for Finance and Public Services to determine health policy, the issue cuts across the two departments. I mention that as a serious point that has been made to me at the top level by consultants at Raigmore hospital.

**Tavish Scott:** I do not underestimate the seriousness of the point. However, I suggest that the committee would get better answers to specific questions about health policy from Messrs Chisholm or McCabe; they are the ministers who have responsibility for health.

I accept that the issue cuts across into the finance side, however. Mr Ewing will be entirely familiar with the contents of the partnership agreement, and with the general strictures and demands that Government faces in making significant progress on the time for which people have to wait for particular medical procedures. I accept that there is a policy drive to achieve more and better results for the money that is spent, but I do not accept that financial strictures drive the process. If Mr Ewing's charge is that the Executive is allocating resources to meet the top-line target, that is a fair point. On judgments that must be made about clinical assessments at individual hospitals I will, once I have taken advice from the health ministers, get back to Mr Ewing in writing.

**Dr Murray:** As you know, we have had many representations on targets. The evidence that we have heard suggests that people think it necessary that we see what progress is being made, but also that there is dissatisfaction about the targets that are used. In your introductory remarks, you referred to the fact that there are issues around the targets. Some of those issues are about the relevance of targets and whether they are picked because they are the most appropriate targets or because they are the most measurable targets. Indeed, some of the targets are about data collection; such targets tell us only about how we are getting the data to measure whether services might be improved, not about how services are being improved. There appears

to be no link between the aspirations of the Executive on the one hand and the targets and the budget on the other.

I know a bit about the process by which the targets are selected, but I wonder whether the Executive has given any consideration to changing the way targets are selected. For example, an aspirational target might be set that could be reported on in terms of the actions that the Executive is taking to achieve it. For example, for a target to reduce child obesity, the various policy strands that the Executive would work on—the school curriculum, free fresh fruit in schools and so on—could be built up to reveal the broader picture. If reporting took that form, it would be possible to include details of budgets that direct money towards initiatives that are involved in achieving the overall aim. The frustration about the way in which such matters are presented at the moment is because it is difficult to see the overall picture and how various elements are built into it.

In that regard, how fundamental a review of targets is the Executive likely to take?

**Tavish Scott:** Elaine Murray will be aware that the 2002 spending review—SR02—targets were always intended to run for the period of the SR02 programme. We take seriously the points that all parliamentary committees have made on the general principles of targets and I can confirm that they are being reviewed in the context of the 2004 spending review exercise. All ministers are being asked firmly to examine the situation that Elaine Murray described with regard to the aspirational nature of targets and the extent to which targets cut across portfolios. To some extent, that is what my department is responsible for, as well as for ensuring that there is a tie-in across various portfolios.

My department is also responsible for assessing the material difference between a data-collection target and a target that measures outcomes. That work is on-going and I hope that information such as that which Elaine Murray wants will come out around the autumn statement on the 2004 spending review. I assume that the information will not be included in the statement, because it will be detailed. I suspect that the information will come out when the Finance Committee and other committees scrutinise whatever other information is produced.

As I hope I said earlier, we would be interested in the Finance Committee's thoughts on that matter. Professor Midwinter recommended that the matter be considered closely by the committee in the coming months—that would be genuinely helpful. I accept the argument about aspirational targets and the lower levels that feed into them. However, I guess that we all—at least, those of us in the coalition partnership parties—recognise the

difficulties that surround being judged on the delivery of a grand sweeping target four years after its announcement. Ministers might find themselves being picked off on the ground because they ain't done it. That is, of course, an inevitable outcome of the Opposition's rightful scrutiny of Government and so on.

There is a balance to be struck, but we want to improve the process. We have taken seriously the criticisms that the Finance Committee and other committees have made and I hope that we will be able by September to announce the progress that we have made.

**Dr Murray:** The counterbalance to the fear of being picked off for not having achieved ambitious targets is surely the fear of being accused of setting only targets that you know you can achieve.

**Tavish Scott:** I agree completely. If we were grown-up, modern and progressive about our politics, we would accept that we should miss some targets because targets should by definition be challenging; we need Government parties and Opposition parties to recognise that. We can have a spirited political debate about our targets, but we must recognise that, if we are going to measure our performance in the public sector, we will be shown to have missed some targets.

**Jeremy Purvis:** I found the committees' reports to be interesting—I have no doubt that the minister did, too. The Health Committee's report was rather confused and many aspects of it were contradictory; for example, it emphasised the need for health boards to be able to make decisions and to set priorities locally, but it also called for new targets, fudged the issue of priorities and did not state clearly that there should be central priorities.

I had more sympathy with another aspect of that report, however. Paragraph 22 states:

"Health boards receive their financial allocations in January of each year, and these are rarely a complete surprise."

Earlier, the report expresses sympathy with the Royal College of Nursing's view that health boards are unable to make forward plans because they do not know what the impact of the new contracts will be. I have persistently asked questions about staff issues and public sector pay; I would like staff contracts and public sector pay to be itemised in the budget documents for health because that would, at least, allow those of us who are at the centre to have a greater understanding of local impacts.

**Tavish Scott:** I assume that Mr Purvis means the Executive's parliamentary budget documents.

**Jeremy Purvis:** Yes.



11:30

**Tavish Scott:** Richard Dennis will respond to the specific point about the extent of the detail on public sector pay in the health service.

**Richard Dennis:** It would be relatively easy to produce that information for past outcomes or for what has been spent in past years—that should not be a long-term problem. However, if we were to provide such information in the future, the danger is that it would become a self-fulfilling prophecy. If we said that we would spend a certain amount on pay, we would end up spending that much on pay irrespective of staff levels. In making assessments about efficiencies and productivity gains, it is hard to focus precisely on what future numbers might be, which is why we have resisted providing future estimates of public sector pay as a proportion of budgets, as Mr Purvis will know from our replies to various parliamentary questions.

**Jeremy Purvis:** I seek clarity in respect of various aspects of the health budget. You helpfully outline the capital budget for health policy, but I do not see why that might not also be a self-fulfilling prophecy. If you budget for X new hospitals by 2006, X hospitals should be built. If they are not built because of local decisions, the money will be allocated elsewhere. I do not see a difference between the two; indeed, the information on public sector pay may be more important. If contracts have been successfully negotiated, I presume that they are not just for next year, but for the longer term, which means that there will be longer-term impacts on health boards—as there would be with building a new health centre—for example, on planning for demographic change, work force planning and health planning. You might not have set budgets, but you will at least have forecasts of the cost. The best place in which those forecasts could be given would be in the documents that the committee receives.

**Richard Dennis:** The capital budgets are already separately identified. However, the number of assumptions about staff numbers and staff mix make it questionable whether estimates on pay that we could provide would be of use, even without considering how much the information might prejudice future pay negotiations. I will reflect on the issue with my health department colleagues and consider whether we might provide the committee with broad-brush estimates.

**Jeremy Purvis:** I would be grateful for that.

I was interested in your discussion with Dr Murray about targets. The minister is right that the committees have failed to suggest any redundant targets; indeed, many committees want more targets and more detail, which is interesting. The

evidence that the Finance Committee received about performance indicators, on which Wendy Alexander touched—I think it was from Andrew Goudie—was that the targets are reactive reporting mechanisms. Have you received advice from officials about sunsetting targets? Is there scope within the Executive's performance mechanisms to be—I will not be too ambitious—a little bit more proactive?

**Tavish Scott:** As I said earlier, one objective in the on-going spending review process is to reduce the 140 targets in the annual expenditure review to below 100. We aim to do that across portfolios—obviously, some portfolios will have more proposals than others. To an extent, the fact that committees have asked for more targets is a reflection of what happens in Government—it is sometimes easier to think of more targets than it is to sunset them. The aim of reducing the number of targets is understood by all ministers and right across the Administration. We fully expect to produce that outcome in September.

As I said to Elaine Murray, we are undertaking work on the type of targets we use. It has been constantly observed in the Parliament that we need to make targets more meaningful; that is exactly what we seek to do and it is the message that has gone out to all departments. Demonstrably, the process starts at official level because, ultimately, officials put proposals to ministers.

**Jeremy Purvis:** The performance and delivery mechanisms, which were outlined to us at length, currently play no part in trying to reduce the number of targets and make them more effective—they are purely reporting mechanisms. It seems to me that quite a lot of bureaucracy has been set up to report back, but that the Executive is not making the connection between how that will affect future decision making or give you better data. At the moment, the mechanism seems to be very reactive.

**Tavish Scott:** If Mr Purvis is referring to the collection of data that assess how well we spend money, as opposed to other assessments or data-collection processes, I entirely take that point. As Deputy Minister for Finance and Public Services, I certainly believe that we would be immeasurably better served if much more of our approach was about clear assessment of how we spend money, so that there could be evidence-based decision making for future policy. To some extent, that is the kind of evidence that you received when Dr Goudie and his colleagues were here a couple of weeks ago—forgive me for not recalling exactly when it was—because that is very much the role that they are playing. The research money that is being spent by the Executive on policy assessment is also based on how well we spend

money. I take Mr Purvis's point. What he has described is part of the current spending review process.

**Jeremy Purvis:** I would like to ask another question on a separate issue.

**The Convener:** Before you do, I would like to pick up on an issue that the minister raised. It seems to me that we cannot continue indefinitely to talk about proliferation of targets. If we are to ensure more effective management, we must reduce the number of targets and make them more meaningful. We must not give in to every interest group that finds that its special interest is not, as a result of reduction in targets, appropriately catered for and which then squeals away about its role being downgraded.

If one goal is to be achieved, there will be consequences to the Administration's planning. As the minister said, that is a matter that lies not only with the Executive but, to some extent, with Parliament. We must accept that that is a reality, but it must be done on an agreed basis. We need to understand that, if we are to reduce targets, Parliament will have input to the process. We could offer legitimate input to decisions about how new targets are arrived at and on whether we accept that they are meaningful. It is not simply a matter of the minister's going away and boiling down the targets, then bringing back to us another set of targets, which may or may not be adequate. An extended dialogue must take place, especially with this committee.

To amplify the point that Jeremy Purvis raised about how the issue is linked to the work of the performance and innovation unit, the committee will be particularly interested in the coming months in issues of value for money, procurement and the efficiency of Government. Some of the targets that we will want to look at deal with efficiency as well as with policy issues. In that context, it was disappointing that the targets that were published by the Finance and Central Services Department were, perhaps, the least precise of the targets of any department.

**Tavish Scott:** That is music to my ears, in many ways. There is a need to drive down the number of targets and I can only repeat that that is our objective. However, I also accept your point that the targets need to be the right targets, which is the message that we are seeking to get across to all the departments in the Executive. In relation to our department, I am sure that Andy Kerr made it clear when he discussed the spending review process with the committee that the value-for-money exercise that will go along with that process is firmly focused on efficient government—any observations that the committee makes on that will be nothing but helpful in driving forward that agenda.

**The Convener:** I will come back to Jeremy Purvis when we have heard from John Swinburne.

**John Swinburne:** Good morning, minister. I received a copious amount of literature through the post and I have studiously applied myself to every report. Although that involved a lot of turgid reading, there were some gems. One of the documents stated that, as we have mentioned, the AER contains a total of 164 targets. In the evidence that he gave to the committee a fortnight ago, Peter Wood mentioned the Executive's target to

"Progressively enable a greater number of older people to live and be cared for in their own homes in each year to March 2006."

That is laudable, but how many people does the Executive envisage will fall into that category?

John Downie's document was a gem—it is the most intelligent piece of literature that I have read in my time on the Finance Committee and it puts over its points extremely well. The Health Committee's report reveals ageism. It mentions the Executive's target to

"Reduce mortality rate in people under 75".

Boom! Boom! I have got 13 months to go before I get the dreaded "DNR"—do not resuscitate—written on the file at the bottom of my bed. I do not know whether that is a veiled reference to some new Executive type of euthanasia, but the matter is worth looking into. I abhor ageism. The Health Committee's document puts down in black and white the Executive's ageism. Many of my constituents will be quite upset by that kind of thing.

**The Convener:** I need to push you to ask a question.

**John Swinburne:** I am coming to a question; I have already asked one on targets.

Mr Downie came out with some good, specific information, which I wrote down. For example, he said:

"Spending priorities are not sufficiently clear."

Does the minister agree with that? Mr Downie goes on to ask:

"If the economy is the top priority of the Executive how does this translate into budget decisions and spending priorities? If education is a high priority, how do we balance this up with the fact that the number of children in schools is declining and is forecast to continue to decline?"

In spite of that decline, we are pouring more and more money into education.

**The Convener:** I will let the minister respond.

**Tavish Scott:** I will try to reply to the specific questions that Mr Swinburne asked. I agree that ageism is not acceptable. We will reflect on the

points that he has made about health targets and will bring them to the attention of the health ministers. In light of the discussions that we have had on targets, it will be useful to raise Mr Swinburne's points when the bilateral with health ministers takes place.

In relation to what the Federation of Small Businesses said and the general contention that our spending priorities are not sufficiently clear, I recollect that the FSB manifesto at the last elections was clear about the need for spending to be allocated to skills, training and education. The FSB had a clear agenda on lifelong learning, a subject to which the Finance Committee and the Enterprise and Culture Committee pay particular attention. I would argue strongly that that part of the Scottish Executive's work is exactly where money is being spent. It can be demonstrated that that feeds into the overall aspirational target of growing the Scottish economy, to which Dr Murray referred. We are happy to provide Mr Swinburne with the detail, but I do not accept the general contention—we are very much with the FSB on that agenda.

**John Swinburne:** Yet again, you have mentioned lifelong learning. Will your department ensure that such learning is lifelong? After all, as I pointed out in Parliament the other day, the chance for people to take up individual learning accounts and to receive £200 to undertake, for example, a computer course is withdrawn when they reach 65. As that is not lifelong learning, please refrain from using the term unless you mean it to apply to the whole spectrum.

11:45

**Tavish Scott:** Let me bring that specific point to the attention of the ministers with responsibility for enterprise. However, in that light, I commend to Mr Swinburne the Enterprise and Lifelong Learning Committee's report into lifelong learning—and the Executive's response to that report—in the previous parliamentary session, which dealt with many points about delivering learning throughout an individual's life.

**Jeremy Purvis:** I found the FSB submission very interesting. I was particularly pleased with the section in which the federation says:

"A strong and efficient Finance Department is also needed in the light of calls for greater fiscal federalism".

Such an approach would be very welcome if it meant that you could analyse my proposals.

Am I correct in thinking that you said that, given that the economy is the number 1 priority, policy proposals or policies that support such an objective will be given preference? The FSB would be interested in hearing that.

**Tavish Scott:** Yes, I did say that.

**Jeremy Purvis:** What mechanisms are in place to judge the potential impact on economic growth of any such decisions?

**Tavish Scott:** Perhaps Richard Dennis can add to my response, but I will say that, within the spending review process, Andy Kerr and I ask our finance officials to make such an assessment. We will bring to bear all the Executive's statistical and analytical levers to assess the requirements that will emerge during the summer to compete for a limited pot.

**Jeremy Purvis:** As we are embarking on a cross-cutting review of economic development, I wonder whether, to assist our inquiry, you will share with us some of the immense analytical powers that you mentioned.

**Tavish Scott:** I am sure that my colleagues will always be very happy to help the committee. However, I should perhaps leave that matter to discussions between officials and the clerks.

**Ms Alexander:** I want to return to the question of evidence-based policy making. It will not surprise the minister to hear that I am going to raise the same two issues that I have continued to raise since September and that we have not yet managed to resolve: the provision of long-term time-series data and data on capital spend.

In its submission, the FSB says:

"A crucial fault with the existing AER is the lack of historical data. ... In earlier years it was traditional to give 10 year runs of the data, at least at the higher levels ... in both nominal and constant prices. Currently the figures cover only 3 years, with no historical back run at all."

That says it all. Sending some sort of spreadsheet to the clerk does not address the fact that the Executive should be responsible for making public the same level of data that was available prior to devolution.

On the assertion that the change to the financial accounting arrangements has made it difficult to supply trend data, I should point out that the same arrangements apply to the whole of the UK and that the Treasury has found no difficulty in finding those data. Nine months on, the question that we must ask ourselves is why, if we regard ourselves as one of the best in the world on these matters, we have fewer trend data than we had before devolution.

Does the Executive have a timescale for taking responsibility for publishing the data? After all, the spreadsheets that have been sent to the clerks provide no information about nominal or constant prices. As you know, there are difficult issues around deflators. By his own admission, our expert adviser does not have access to the full range of information that is necessary. The starting point has to be the provision of the data. We asked for the information to be provided in time for the spending review, although I accept that it had not

been published by then. I am looking for a timetable for the Executive to provide the data at its own hand, as is common practice in financial accounting regimes the world over.

**The Convener:** It might be useful if Richard Dennis could say something about the data that the Executive has produced up to now. We have agreed to have a discussion within the committee about what we have received and whether it meets our purposes. Not all committee members have seen the information that we have received thus far, but it might be useful if Richard Dennis could respond on that point.

**Richard Dennis:** My understanding was that the committee had requested that we should not make that information public at this stage. That is one of the reasons why the minister has formally sent it to the committee. The Executive was not proposing to do anything further until it had heard from the committee. Mr Kerr sets out in his letter that, at the end of the spending review, when we publish the next update—

**Ms Alexander:** Is that the letter that we have not seen?

**The Convener:** Yes.

**Ms Alexander:** So the minister has written to us, but the letter is not available to the committee. Thank you. Please continue, Richard.

**Richard Dennis:** I will try to avoid getting involved in internal committee matters.

We state in that letter that we will publish an update of the document for the next spending review. Our plan is simply to keep all the existing year's information, adjust it to make it fully comparable and add years on. We will build back to the full nine or 10-year spread that is traditional over a period of years. On capital data, we have already provided five years' data and we will add another two in September and so on as we roll forward.

**Ms Alexander:** It is impossible for us to comment if the minister has written to the committee but we have not received the letter.

**The Convener:** We got it only yesterday.

**Ms Alexander:** Fine. I understood that there was a spreadsheet. If there is also a ministerial letter, we will come back to the matter. The committee will not want to let go of the policy intention of—and the need for—the Executive to provide historical data, as was done prior to devolution and as is done in the rest of the UK. The iterative process may continue, but it is ultimately for the Executive to provide trend data about its spending.

I conclude with what we said earlier. The budget adviser has told us that it is

“impossible to develop a single, consistent time series of capital spending over the period”,

because the data for Scotland are not available to him although the data for the rest of the UK are. It would be helpful if we could get a sense of when that information will be available and how it will be built into the process, so that we can have the more informed debate that the Executive is looking for.

**Richard Dennis:** We will publish genuinely comparable numbers to the spending plans in the autumn. It is not possible to produce them on the same basis for the years before 2002-03. We will build on that spread so that, in the autumn, we will publish the numbers from 2002-03 up to 2007-08. We will continue to add on to those in future spending reviews. The numbers that we have provided on the spreadsheets give a fully comparable series for 10 years up to 2005-06 but not on the same basis as we currently publish the numbers. If we were to produce a system that was adjusted from year to year to take account of all the changes, we would end up with a set of numbers with so many footnotes that they would be of no use.

**Ms Alexander:** What is the position in the UK in respect of the provision of trend data and how is the issue to which you point overcome at UK level?

**Richard Dennis:** There are more complicated record-keeping systems that have allowed all the adjustments to be made forwards and backwards through previous years. The numbers that the Treasury publishes now for the nine years go from 1998 up to 2005-06. Those will be radically different from the numbers for 1998 that were published three or four years ago.

**Ms Alexander:** In what document are those figures published?

**Richard Dennis:** They are in the public expenditure statistical analysis. I am sure that your adviser is familiar with that publication.

**Ms Alexander:** Sure. So PESA publishes 10-year trend data on a UK basis. However, as we have established, PESA does not provide spending data for the Scottish Executive; it provides identifiable spending in Scotland. You are saying—and I think that we need to see this in writing—that it is not possible to produce PESA-comparable data for Scottish Executive spending although the Scottish Executive is a much smaller body with much smaller spending responsibilities.

It is slightly frustrating that it has taken us nine months to get to this point, but we will need to look at the minister's letter. Everyone who has been involved in the FIAG process will find it depressing that we cannot have in Scotland a level of

transparency comparable to what is available on the total UK budget. We will want absolute clarity on that.

**The Convener:** It would help if those who are most concerned with the matter look at the letter that we have received and the information that we have got and then work out the adequacies or inadequacies. The discussion might best take place informally—at least initially—but we can organise that on behalf of the committee.

I thank the minister for coming along today and for giving us evidence. Our timescale for producing our budget report is tight, but the evidence that you have given us today and that we took previously will be helpful in producing that report.

We move back to agenda item 2, which is consideration of subject committees' reports on stage 1 of the budget process and other written evidence, some of which we drew on while questioning the minister. If there is anything else that members wish to raise, they can do so. Arthur, do you have anything to say or are you content that the reports speak for themselves?

**Professor Midwinter:** I presume that everybody has had my summary.

**The Convener:** Yes.

**Professor Midwinter:** There may be questions that arise from that. The only point that I want to make on the minister's presentation is about the refinement of targets. We need to be clear about two things. The first is the opportunity that now exists to refine the targets for this year's spending review, the number of which the minister has said he wants to reduce. The committee might want to voice a view on which groups of indicators—some of which are wholly process based—should come out. We ought to examine that before the end of stage 1.

The second point is more important and relates to, if I understood it correctly, the offer to consult the committee on how the targets are used in the round and linked to budgets. That issue is more long term. The minister is right that I have been looking at other systems, although he probably exaggerated what I said to him. I said that I have not found a system that successfully measures outcomes, which is not the same as saying that there is nothing to learn from outcomes—there are things to learn from them, but outcome measurement is a problem everywhere. I would like to take the summer to reflect on the issue and come back to the committee early in the autumn with some suggestions on how the system as a whole could move on, be made more focused and link budgets with targets and objectives.

**The Convener:** That would be acceptable to the committee.

**Ms Alexander:** I want to mention a number of things that should be in the stage 1 report. First, we need to commend the committees for producing better quality reports than we have received in the past. Secondly—this is for Arthur Midwinter to reflect on in preparing his report—it would be helpful if we scheduled a serious amount of time to discuss the stage 1 report; there are issues that we do not have time to discuss now, but they might come up when we get the report. On the wisdom or otherwise of specialist committees having their own budget advisers, my view is that we have received better reports when the committees have had advisers. We might want to mention that, because stage 1 is when we should recommend that approach.

Thirdly, given the work that subject committees have put in, we need a conclusion that draws firmly on their recommendations. There is some precision in their recommendations, so if they feel that we have lost them they will not show suitable diligence in future.

Fourthly—this is a point of difference—in Arthur Midwinter's report accounting data are referred to in paragraph 3(a) of section 2, which is on wider budgetary issues. The issue is whether we compel local government to be transparent about its spend, and the implications—

**Professor Midwinter:** No—we are not going to tell them; they are asking for that.

**Ms Alexander:** Exactly. The paper refers to how problematic it is to get data on local authority discretionary spend. I would like us to discuss that. In the rest of the UK, local education authority spending is pulled out, shown separately and is therefore transparent.

Almost without exception, the committee reports—especially that of the Health Committee—say that, on the 80:20 rule, it is wrong for us to devote all of our time to discussing 20 per cent of the budget. The Education Committee is saying that it is wrong for us to be spending our time discussing 10 per cent of the nominal budget. The overall point is that it is wrong that the nominal budget does not include any data on at least half the expenditure in Scotland. Issues arise about our encroaching on local authority independence, but this discussion is about ensuring that spending is transparent; it is not about trying to influence how money is spent.

Committee after committee has raised these issues and we must discuss them further. I am happy not to do that now but to do so at the time of the draft budget report. When we schedule time for the budget report, we should schedule 45 minutes or, perhaps, an hour for reflection on these issues.

12:00

**The Convener:** It is intended that we will consider the draft budget report on 8 June. It will be the main item on our agenda and members will have a lot of time to discuss all the issues. If members wish to raise specific issues, as Wendy Alexander has just done, they can raise them now or, preferably, write to the clerk so that she can pass that information to Arthur Midwinter.

**Fergus Ewing:** I support Wendy Alexander's point on the lack of consistent capital spending time-series data. I support her call, which I hope will form part of our report.

I raised general points on the difficulties that face health boards in respect of recurring budgeting. The subject is complex but the information that has been requested—also by Wendy Alexander—should be pursued. It would provide a focus on what appears to be the main difficulty that prevents health boards from reaching budgets—namely, uncertainty about the costs of pay for consultants, general practitioners and junior doctors.

A couple of weeks ago, we heard evidence from Andrew Goudie on the byzantine process by which the Executive tries to identify expenditure that is either wasted or serves little purpose. The process was so complicated that perhaps—like the Schleswig-Holstein question—only one person really understands it. It was certainly too complicated for me. I wonder whether an effective way exists of identifying money that is wasted. The issue is raised by the public time and again.

In this committee, it would be difficult to go into the detail of whether £300,000 should be spent on designing a logo if, ultimately, we do not get a logo. We cannot really go into the details of such expenditure, but I am not satisfied that proper, robust and adequate mechanisms exist at all to consider such issues. That is very serious; we should ask the Executive to develop mechanisms that meet the required criteria and we should do so as part of our report.

**Jeremy Purvis:** Wendy Alexander made a very important point about the budget process. A considerable number of questions arise and it may be for other committees to answer them. This committee should be involved in discussions on whether the £7 billion health budget is accountable, whether there should be non-executive elements on boards and whether there is local accountability. The situation is similar, but not the same, with local authorities.

Over the coming years, Parliament will have increasingly to consider the relationship between national priority setting, and local delivery and local circumstances. At the moment, the process of scrutiny is problematic and the problem goes

wider than this budget process. I hope that we will have an opportunity—perhaps at an away day or when we do some work outside the committee rooms—to discuss how we wish to deal with it.

I would welcome our adviser's doing some work on the targets over the summer. The subject committees' reports suggest that work needs to be done on what we want from targets. Many people—if not all people—say that there are too many targets, but people who deal with particular areas say that there are not enough targets and that there is insufficient detail. Our role is to say what the best kinds of target to use are, if there are to be targets. The Health Committee report talks about SMART—specific, measurable, achievable, relevant and time-limited—targets. Use of such targets would go some way towards what is needed, but not all the way. It would stand Parliament in good stead to produce guidance for committees and—potentially—for other public services.

Finally, I will pick up on two points that the Environment and Rural Development Committee raised. First, the committee calls for a review of cross-cutting rural development spending. That is important and should be considered. Secondly, I was disturbed by paragraph 8 of that committee's report, which says:

“Unless such changes take place”—

by which the committee means that it wants more information to be available—

“the Committee will be reluctant to give any degree of priority to the current budget scrutiny process, given the other demands on its time.”

Does the convener have a response for the convener of the Environment and Rural Development Committee? It is disturbing that a subject committee is telling us that in the future it might not give “any degree of priority” to the budget process, which is potentially the most important aspect of its work.

**The Convener:** The reality is that committees have their own remits and will decide how to use their time. It is incumbent on us to do everything that we can to make information available—through our own work and by pursuing the Executive—so that budget scrutiny is as relevant and meaningful as possible for committees. The extent to which we put forward committees' requests and receive positive responses from the Executive will, to some degree, determine the value that committees perceive budget scrutiny to have. The responsibility for that lies not just with the Finance Committee but with the Executive.

I will emphasise a couple of points that arise from the discussion. First, I do not think that the issues are the same for local authorities as for health boards; we must separate the democratic

element that is associated with local government from the local autonomy of health boards, which do not have such a strong democratic push. However, I appreciate the concerns of the Local Government and Transport Committee and the Health Committee that their scrutiny should not be confined to narrow areas of spending. It is clear that such scrutiny would not be the same as scrutiny of part of the budget for which the Executive was wholly responsible, but we need to find a mechanism that will allow those committees to consider the framework within which money is spent across the board. Committees continually raise that issue.

Secondly, we need to pay attention to potential solutions to problems such as capital slippage. As I said, we need to consider some of the issues that Arthur Midwinter raised in his paper on capital spending; we need to make recommendations about how to reduce the scope for capital slippage and about the balance that should exist between capital and revenue spending. The committee's views on the matter have been reasonably clear and we should include them in our budget report.

## Scottish Parliament Building Project

12:08

**The Convener:** Agenda item 4 is consideration of the latest monthly report on the Holyrood building project. Members have a copy of the report—which was issued late yesterday afternoon—and two letters, from Paul Grice and Sarah Davidson, which we have received since we considered the previous monthly report. I did not think that it would be appropriate to take evidence from witnesses today, given that our agenda is heavy. The report is a steady-as-you-go report in terms of the information that it contains.

I will make a suggestion for the committee's consideration. My understanding is that the Presiding Officer is likely to give us a much more detailed report, which will include some migration issues, in time for our meeting of 22 June. I propose that we take oral evidence on the more detailed information on that day. It may be that members wish particular questions to be addressed at a future evidence-taking meeting. If we do not have an evidence-taking meeting before 22 June, it might be useful to identify outstanding issues before then, bearing in mind that our meeting on that date is likely to be our last evidence-taking meeting before migration takes place. For the sake of completeness, we should ensure that we do that.

**Kate Maclean:** I refer to one of the last paragraphs of the monthly report, which refers to the recent vandalism. It says:

“Bovis has responsibility for site security”.

Will Bovis Lend Lease be financially responsible for any damage? I am aware that, following the publicity from such an incident, copycat incidents can take place. I would like to think that Bovis will, if it is responsible for site security, be responsible for dealing with any subsequent vandalism.

**The Convener:** We can write and ask for that information.

**Fergus Ewing:** In his letter dated 29 April—which responds to questions on loss and expense that I asked at our meeting of 20 April—Paul Grice confirms that the total figure that is attributable to that item, which he—perhaps more technically correctly—describes as encompassing

“prolongation, re-sequencing, disruption and loss”,

is about £100 million. That means that, when we add the additional costs of £13.84 million, approximately £115 million of the total cost of the Holyrood project is attributable to

“prolongation, re-sequencing, disruption and loss”,

which means that no less than one third of the total cost could have been avoided; we could have had the same building for two thirds of the actual cost. That highlights an important issue for the Finance Committee as it looks forward to the swift dénouement of this tragedy: that we keep a very close eye on the issue of loss and expense.

I want to mention a particular matter regarding loss and expense, which I will certainly wish to pursue with Mr Grice, Mr Brown and Sarah Davidson next month. I am concerned about what monitoring is going on of all the people at the site who are doing little or nothing—in the words of Sarah Davidson, “waiting to be needed”. What monitoring of the construction managers’ performance of their duties is going on? Is there any? It is an extremely serious aspect of performance.

I am afraid that, from my perspective, the likelihood is that there will inevitably be more costs because of the complexity of the project and the inevitability that there will be further

“prolongation, re-sequencing, disruption and loss”.

I feel that our prime focus should be on asking each witness who comes before us about that. I accept that they should do so in the third week of June, after we have had a more detailed report. I hope that their written submissions will spell out exactly what they have been doing to ensure that we are not throwing away millions of extra pounds through unnecessarily having hundreds of workers hanging around the site, waiting for their turn to do their job.

I do not want to go into the specifics that have been put to me because there is no way that I can tell whether they are robust. The problem is obvious and I wanted to set it out as I see it at length for the benefit of Paul Grice and his colleagues, so that they can focus on it and, before they come before us, provide in the corpus of their written report a clear statement about how they are tackling the problem.

12:15

**The Convener:** In a sense, we are having a brief discussion today to gather together such points and to ask for precisely the information that Fergus Ewing and Kate Maclean seek.

**John Swinburne:** Last week the cost of prolongation did not matter, because it was not going to happen. The £45.4 million end-of-year money was taken into this year. I asked what the additional cost was, given that projects that should have been paid for last year had been delayed. I was told that there were no additional costs whatever. All of a sudden, Paul Grice sends a letter this week that says:

“103.9m could be attributed to claims related to prolongation, re-sequencing, disruption and loss.”

If that £100 million can be put down to prolongation, there is bound to be an increase in the amount of money that the end-of-year fund carried forward. I do not know why the team cannot be open and straightforward about it instead of trying to tell us that there will be no additional cost.

I paid my first visit down to that place last week. As someone who worked in engineering for many years, I was amazed to see in the garage area costly equipment that had been lying in dust for dear knows how long. Such equipment is normally hired out by the hour, day or week but—even to my untrained eye—it looked as though it had been lying there for months. At what cost? People hire equipment only when they are going to use it. They do not hire it then store it in case they need it. The figures speak for themselves. I am afraid that the Scottish Parliamentary Corporate Body has not been on top of the job, end of story.

**The Convener:** Perhaps we could add the point about equipment to the points that Fergus Ewing raised about people; the issues are, in a sense, two sides of the same coin.

As there are no further comments, do members agree to say to the Scottish Parliamentary Corporate Body that we will take evidence from it on 22 June and that we expect it to provide the committee with a substantive report before then, which will cover the management of migration as well as building issues? Do members also agree to my writing to the Presiding Officer to say that we hope that the three issues that members have raised can be addressed either in a response or in the substantive report that we receive?

**Members indicated agreement.**

**The Convener:** The committee will now move into private session to discuss the final three items on the agenda, which are consideration of an adviser for our cross-cutting review into economic development, an issues paper on relocation of public sector jobs and a draft report on the Emergency Workers (Scotland) Bill.

12:18

*Meeting continued in private until 12:30.*



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