

# **FINANCE COMMITTEE**

Tuesday 20 September 2005

Session 2

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## FINANCE COMMITTEE 20<sup>th</sup> Meeting 2005, Session 2

### CONVENER

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

### DEPUTY CONVENER

\*Mr John Swinney (North Tayside) (SNP)

### COMMITTEE MEMBERS

Ms Wendy Alexander (Paisley North) (Lab)

\*Mr Andrew Arbuckle (Mid Scotland and Fife) (LD)

\*Mark Ballard (Lothians) (Green)

\*Derek Brownlee (South of Scotland) (Con)

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

\*Mr Frank McAveety (Glasgow Shettleston) (Lab)

\*Dr Elaine Murray (Dumfries) (Lab)

### COMMITTEE SUBSTITUTES

Alex Neil (Central Scotland) (SNP)

Iain Smith (North East Fife) (LD)

Janis Hughes (Glasgow Rutherglen) (Lab)

\*attended

### THE FOLLOWING ALSO ATTENDED:

Professor Arthur Midwinter (Adviser)

### CLERK TO THE COMMITTEE

Susan Duffy

### SENIOR ASSISTANT CLERK

Judith Henderson

### ASSISTANT CLERK

Kristin Mitchell

### LOCATION

Committee Room 4



## Scottish Parliament

### Finance Committee

*Tuesday 20 September 2005*

[THE CONVENER *opened the meeting at 10:02*]

### Interests

**The Convener (Des McNulty):** I welcome everyone, including the press and the public, to the 20<sup>th</sup> meeting in 2005 of the Finance Committee. As usual, I remind members to turn off their pagers and mobile phones. We have received apologies from Wendy Alexander, who will not be with us.

We asked the Deputy Minister for Finance and Parliamentary Business to appear before us today to talk about the efficient government time-releasing technical notes, but late last week he had to pull out. The intention now is to have him speak to us at the start of our next meeting.

Alasdair Morgan has resigned from the committee and has been replaced by John Swinney. On behalf of the committee, I thank Alasdair for all his work as deputy convener and welcome John as his replacement.

Anthony Appiah-Yeboah, who is the deputy editor of the Parliament of Ghana's *Hansard*, is with us today—he is on my left, next to Judith Henderson. He is visiting the Scottish Parliament.

Under agenda item 1, I invite John Swinney to declare any relevant registrable interests.

**Mr John Swinney (North Tayside) (SNP):** Thank you for your welcome, convener. I draw members' attention to my entry in the register of interests. I have no other relevant matters to bring to the committee's attention.

## Deputy Convener

10:03

**The Convener:** Agenda item 2 is to choose a new deputy convener, as Alasdair Morgan has left us. The new deputy convener must be a member of the Scottish National Party. I invite nominations.

**Jim Mather (Highlands and Islands) (SNP):** I nominate John Swinney.

*Mr Swinney was chosen as deputy convener.*

**The Convener:** I am delighted that John Swinney is now the committee's deputy convener. Congratulations, John.

## Efficient Government

10:04

**The Convener:** Agenda item 3 is consideration of a paper from Arthur Midwinter and the Scottish Parliament information centre on efficient government, specifically the allocation of efficiency savings. For our meeting on 28 June this year, Arthur Midwinter produced a paper detailing the efficiency savings that appeared to have been already allocated under the previous spending review. At the committee's away day, he and SPICe were asked to produce a chronology paper, which we now have. I invite Arthur to speak briefly to the paper. Once he has outlined the main points in it, I will invite comments from members.

**Professor Arthur Midwinter (Adviser):** The paper attempts to pull together a number of developments in the efficient government programme. I will highlight the main points. First, the paper separates out the two types of savings that we have heard about. There are savings of £319 million in budget baselines and savings of nearly £412 million that are not in baselines but have been left in the appropriate departmental portfolio.

When the savings were first proposed, they were described as targets the meeting of which would free up resources for investment in front-line services. Initially, I was of the view that only the local government settlement had been built into the first type of savings—the savings in budget baselines. Indeed, an Executive official advised me that that was the case. It was only later in the year that it emerged that slightly more had been built into those savings, including the health efficiency savings, and that £319 million had been reallocated at the time of the spending review, so we were labouring under a false impression. I am not suggesting that there was any attempt to deceive us; we simply received the best information that was available at the time.

The sum of £319.3 million has been reallocated between portfolios, but the Executive is unable to tell us where. It was treated as part of a bag of money that included the Barnett consequentials and the results of other reprioritisation. Almost £412 million has been left in departmental portfolios. I understand that that money relates to programmes in relation to which departments' proposals for the efficient government initiative were received after the spending review process had been completed. The departments that submitted their proposals late were rather fortunate in being allowed to keep that money.

There is a lack of information about where the £319 million has gone. Furthermore, we have no

information on how the money in the second category of savings has been used. I thought that it could be spent only once the targets had been met and the savings had materialised. I would expect information on that to appear in the annual report on such matters and—given that the Executive is transferring money within portfolios—to form part of the budget revisions. I hope that that will come later. The view was expressed to us that the savings were left with the departments concerned because there had been a tight settlement. I confess that I find it difficult to understand how real-terms growth of 3.5 per cent could be described as a tight settlement. That does not match the experience of most of my working life, but never mind.

We have since had correspondence that confirms that, in relation to the efficient government data, there are no service baselines or output measures in place to allow us to measure what we would properly regard as efficiency improvements. The draft budget states that efficiency is about the relationship between inputs and outputs, but at the moment we simply have financial data; we do not yet have output measures that can be used as a proper baseline for measuring progress and we do not know where money has been reallocated.

I have a final comment, which is not in the paper. I am aware that events move on as our work progresses. A new document has been produced that the committee will discuss next week. Both the committee and Audit Scotland have raised major concerns about the quality of information and financial data. There is a lack of output data and we need clear baselines and more transparency on how the savings are delivered.

The second set of efficiency technical notes, which the committee will discuss next week—I cannot be here then—makes no major revisions. It makes a number of minor revisions, but does not address any of the big issues that the committee and Audit Scotland have raised. That is a matter for concern. Unless we get output data and baselines, the present programme cannot be described as an efficiency programme; it will simply be an exercise in reallocating money.

**The Convener:** As Arthur Midwinter has indicated, next week we will quiz the minister on efficiency technical savings. I suggest that members stay behind at the end of today's meeting to get a briefing from Arthur on some of the issues. We can address the issues relating to the ETNs with the minister next week.

Before opening the floor to members, Arthur, I seek clarification on a couple of points. I am conscious that three members of the committee were not committee members in June, when we

discussed our approach to the budget process. In paragraph 3 of the briefing note, you state:

“My initial impression was that only the Local Government savings of £326m had been built into the baseline”.

Why has it turned out that the amount was only £201 million? I suspect that that may be a little impenetrable to members.

**Professor Midwinter:** The issue is fairly straightforward. Total local government savings were £326 million. The £201 million is composed of a reduction in the revenue support grant element—the block grant to local authorities—and police elements of the specific grant of, I think, about £30 million. For information, I will circulate to the new members of the committee a note that spells that out in detail.

The information that we received at the time was that local government had been treated differently. When we pursued the matter later, there was an exchange of e-mails between us and a number of Executive officials in which we sought to get the correct picture. Basically, the £201 million has gone from the local government budget; it was taken off and reallocated. It will be open to local authorities to use the remaining £125 million—which includes savings on procurement, one of the grey areas—if they make the savings.

**The Convener:** There are three figures here: the £326 million and the £201 million to which we have referred, and the £168.3 million for assumed local government efficiency savings that appears in table 1 of paper FI/S2/05/20/3.

**Professor Midwinter:** The figure of £168.3 million is the total that came out of the RSG. The other figures are £27 million for efficiencies in the supporting people programme, which has been taken out of local government, and £5.5 million for common police services. Those three figures tally up to about £201 million. The table spells out the position. The second, third and fourth savings that it lists are the combined local government package of the £201 million that has gone.

**The Convener:** That explanation is helpful.

**Dr Elaine Murray (Dumfries) (Lab):** I am concerned by the fact—which you have flagged up to us on a number of occasions—that the efficient government delivery group does not seem to have been tasked with measuring efficiency. Efficiency should be measured either relative to a theoretical maximum, which is difficult to do in public sector finance, or at least in respect of whether efficiency is being improved, but the group does not seem to have been asked to work that out. Many concerns have been expressed in the committee about whether the Executive is as ambitious as, or more ambitious than, the Treasury. Do you know whether the United Kingdom Government has a

mechanism for measuring whether it is increasing the efficiency of its projects?

**Professor Midwinter:** I confess that it takes me enough time to keep up to date with what is happening in Scotland, without worrying about the rest of the UK. However, I am aware that the Treasury is treating the delivery of savings as a matter for departments. It appears not to have a central co-ordinating mechanism. Once it has set targets, it leaves it to individual departments to deliver them. There is a slight difference from the situation in Scotland, because all ministers at Whitehall have had to sign up to the programme and are accountable to Parliament for delivering it. That has not happened up here.

**Dr Murray:** I am questioning whether the UK exercise is simply a saving exercise or whether it is an efficiency exercise. We are making the argument that, if we are not able to measure whether outputs have increased relative to inputs, we cannot say that we are more efficient. Will the UK Government be able to say that? Have ministers down south signed up to doing it, or have they signed up only to making savings?

**Professor Midwinter:** I do not know the answer to that. In theory, the UK Government has signed up to an efficiency programme, but without going through the hundreds and hundreds of projects in the same way as we have done here, I could not possibly comment, as the saying goes. The Treasury has always stressed the need for output measures in its work, but I do not know whether those measures are different from ours, so it would be unfair of me to comment.

10:15

**The Convener:** It is probably fair to say that the process that the committee is going through is the most rigorous searchlight on the matter since devolution.

**Professor Midwinter:** Absolutely. Under the old regime, the Select Committee on Scottish Affairs probably would not even have considered the matter. Without doubt, the Executive is under far greater scrutiny over the delivery of the savings than its counterpart in Whitehall, just because of the sheer time that it would take to scrutinise delivery in Whitehall.

**Derek Brownlee (South of Scotland) (Con):** I am surprised that the departments that did not identify efficiency savings until later in the process somehow managed to do better in the settlement than those that did what they were intended to do and considered the matter earlier. You said that the justification was that the spending review had been tighter—although you were somewhat sceptical about that—but is there any evidence at all that the review was tighter for departments that

identified the efficiency savings later? I think that I may know the answer to that.

**Professor Midwinter:** The review was tighter in that the growth was 1 per cent less than it had been in previous years—we moved from 4.5 per cent growth to 3.5 per cent growth. However, in most of my working life studying such matters, the changes have been of the order of 1 or 2 per cent either way—there could be a reduction—so the increases in the past four or five years have been exceptional. I think that there is a table that would provide the answer to your question. It was certainly recognised that the bulk of the savings fell on one or two departments, while others had savings targets of less than 1 per cent. The savings are roughly split 50:50 in terms of the portfolio holders, but we should be clear that the bulk of the savings are in health and local government.

**Derek Brownlee:** Elaine Murray touched on the issue of measuring efficiency. Is the inability to capture output data a problem? If the Executive was to put in place measures to capture output data to allow us to measure efficiency, is it the case that we would not know whether anything had been delivered more efficiently for another two years or so?

**Professor Midwinter:** There are always areas where it is problematic to measure output, particularly in administrative and support services. However, for the big mainstream services such as roads, housing, education and health, measuring the output of the services is not difficult, although measuring outcomes is much more difficult. For comparison, local authorities are required to produce that kind of baseline for the best-value audit. There is no reason why the exercise could not have been done. One can only guess that the problem was caused through pressure of time and the sudden announcement of the review, but there are no technical reasons why output measures could not be produced for the bulk of the programme, which I think is what you are asking.

**Derek Brownlee:** So there is no reason why that could not be done now.

**Professor Midwinter:** The Executive could do it now, if it so wished.

**Mr Andrew Arbuckle (Mid Scotland and Fife) (LD):** I take the convener's point, which was backed up by Arthur Midwinter, that thanks to devolution we put the Government here under more financial scrutiny than is the case south of the border. However, I am worried about the fact that we cannot identify where £320 million has been allocated. We still have some way to go before we get into the financial innards of Government. Surely we cannot leave it there. To the proverbial man in the street, £320 million is a

great deal of money. Can we go back to the Executive and ask about that? We must find out where the money has been allocated. It is not satisfactory for the Executive to say that it will be spent on education, health or whatever. If the Executive is moving money from department to department, the Finance Committee should know about it.

**Professor Midwinter:** Whether you go back to the Executive is more a matter for you than for me. All I can say is that you have a letter from the Minister for Finance and Public Service Reform, which states:

"it will not always be possible to say specifically where a particular saving has been directed to."

It is for the committee to decide whether it wants to write back and ask for clarification, but the Executive has not been able to provide the information either in my informal discussions with officials or in formal correspondence with the committee.

**The Convener:** Perhaps we can pick up the issue with the permanent secretary when he comes before us next week.

**Mr Arbuckle:** Is the matter something that we will return to next week?

**The Convener:** There will be opportunities to return to the matter, particularly as the permanent secretary will be here. You might want to pursue the question then.

**Professor Midwinter:** The correspondence is quoted in paragraph 9 of the briefing note on the reallocation of efficient government savings. The minister says that it will not be possible to say where a particular saving has been directed, but I would say that that is true of most of the savings.

**Mr Arbuckle:** We have some way to go yet.

**Mr Swinney:** I will pursue the point that Andrew Arbuckle has just left. I am struck by the contrast between the statement that Arthur Midwinter read out from the minister's letter, which says that it will be difficult to identify where the savings have gone, and comments that the minister put on the record in October 2004 in response to a question from Elaine Murray. He said:

"we will be able to demonstrate clearly where savings have been made and applied. After all, we must ensure that there are identifiable benefits at the front line."—[*Official Report, Finance Committee*, 5 October 2004; c 1758.]

The minister's letter says, "Come on. How do you expect us to be able to work out where the money has come from and gone?" However, he stated to the committee that the Executive would be able to give that information. We must get to the bottom of the point about the £320 million.



My question is about a point that Arthur Midwinter made a moment ago. He said that it may have been pressure of time that prevented a methodology from being put in place to ensure that the information is captured. I do not think that any of the work that should be done would pose a difficulty to any organisation that wanted to measure its inputs and outputs and to determine whether it had increased efficiency. I am struck by Arthur's comparison with local government and the best-value regime, because my local authority colleagues tell me that they do such work every day of the week. If local government can find what Arthur correctly identified as genuine efficiency savings—local government is getting less money but it has to provide more services, so anecdotally it seems that it is becoming more efficient—what is the impediment for the Scottish Executive?

**Professor Midwinter:** I am not sure that I can answer on behalf of the Executive but, personally, I do not see an impediment. I agree with the sentiments that you express. A desire to do the necessary work rigorously would lead to the generation of the appropriate output data. We have not had an explanation of why that has not been done. Will you run your first point past me again?

**Mr Swinney:** I quoted from the *Official Report* of the Finance Committee meeting of 5 October 2004. The minister said:

"we will be able to demonstrate clearly where savings have been made and applied. After all, we must ensure that there are identifiable benefits at the front line."

**Professor Midwinter:** In the committee's previous discussions on the matter, I raised concerns about whether both parts of that statement are true. On the first part, there are uncertainties about the information that we will get about the delivery of local government savings—they represent a big chunk—and the delivery of health and procurement savings. In those areas, the information that we were given was not adequate for us to judge whether the sums that the Executive highlighted as targets were achievable. The jury is still out on that. I understand that the Executive is reaching an agreement with the Convention of Scottish Local Authorities on how the information about the delivery of those services will be presented—that is still to come.

We are nowhere near resolving the second point. The Executive's view has been that the additional benefits arising from the release of the savings were reflected in the targets that were set at the time of the spending review. I immediately said to the committee that that was not adequate and that those targets, some of which are outcome based, were not the same as measuring output increases as a result of efficiency gains.

We then had a reply from the Executive that suggested that it would use the national accounts model to show that it had increased output by 5 per cent. I advised the committee that that model is entirely inappropriate for such an exercise. The national accounts model treats the public sector input the same as the output—if one increases spending by 5 per cent, one increases output by 5 per cent. In this case, however, if we stick to the national accounts model, we add nothing because we would just redistribute the 5 per cent.

The committee has already said to the minister that we do not think that either of those explanations or ways of measuring the delivery is adequate. For each service, we need a measure of increased output—more teachers, more policemen and so on. The minister used that language in what he originally said—he talked about teachers, policemen, doctors and nurses—but we have no quantitative information about how those numbers are changing as a result of the exercise. Part of the problem is that the Executive has treated the block of money as part of the overall growth pot.

**Mr Swinney:** I would have thought that it was perfectly practical for the Government to identify a range of different savings, put them into a pot and say, "This is the efficient government pot and we will now have a bidding process"—that is the way in which the challenge fund bidding process worked in previous years. There would be an identifiable pot of money from which it would be possible to draw down. I take it from your paper that no such approach has been taken.

**Professor Midwinter:** The process involved the moneys that were made available being redistributed according to ministerial priorities—that was the phrase that was used. The process that you describe would have been perfectly possible to operate.

**Jim Mather:** In the Scottish Parliament information centre paper there is an efficient government timeline. Next to 29 November 2004, it states:

"Publication of the Efficient Government Plan by the Scottish Executive reveals a target of £745m recurring savings".

Although it was claimed at the time that those savings were recurring, that was disproved shortly thereafter. Therefore, the word "recurring" is superfluous.

**Professor Midwinter:** I am quite happy with it. In a sense, savings recur once they are made. We were unhappy about the Executive counting them three times, but if one saves £90 million, it is saved forever.

**Jim Mather:** I would love to see that explained to genuine captains of industry, let alone people in

the public sector. However, I will pass glibly over it, which treatment is about as good as it deserves.

The key point that comes out of the paper is that you have proved that even auditing the movement of money is difficult and embarrassingly incomplete. Anything less than a total reconciliation and a full audit trail is an affront to the committee and the Parliament.

**Professor Midwinter:** I presume that that is an observation.

**Jim Mather:** I am looking for verification of that reasonable statement.

10:30

**Professor Midwinter:** There is a need to deal properly with the exercise in the way in which you suggest, otherwise it will continue to be treated as it is in the media. Devolution is supposed to be about bringing in more transparent and rigorous government. Let us pursue that.

**Jim Mather:** On the assumption that we can park that reconciliation and audit trail back where it belongs, is there value in our turning the focus on the baseline of outputs and saying, "Given that you're making these claims for savings, let's see the baseline outputs as they were at 24 June 2004; let's see the movement that is forthcoming on that", and use that as an additional reconciliation?

**Professor Midwinter:** We should be asking for that information; it is a gap in the document. Audit Scotland gave the Executive the same advice: without baselines and output measures, the exercise will not be complete.

**Jim Mather:** That is nice and crisp. This should go back to the Executive: we want a reconciliation of the money and of the outputs, and anything less is not enough.

**The Convener:** The issue is the timescale within which that can be achieved.

**Mr Frank McAveety (Glasgow Shettleston) (Lab):** Some of the matters that I wished to explore were discussed in response to previous questions. However, there are two or three things that I wish to ask Arthur Midwinter.

If I may quote the classic line, "You wouldn't start from here."

**Professor Midwinter:** The road to Dublin.

**Mr McAveety:** I do not want to make any comparisons with Ireland because Jim Mather would come in if that was an Irish joke.

The convener mentioned the timescale, and we are probably a year down the road from the commitments and pledges on how savings would

be targeted. We have discussed critical elements such as baseline budgeting and drawing down outputs, but are there any additional useful measures that the Executive could take within the timescale to allow us more clarity than we have been given in our past two or three meetings?

**Professor Midwinter:** I cannot think of anything further. All my thoughts on the gaps and on what needs to be done are in the various papers. I am just looking for more rigour and more transparency in general. If you were to ask, "Where should we start from?" I would answer, "What is a reasonable target? How can we share the work equitably among the portfolios? What will be the benefits in the outputs?"

The efficient government initiative does not appear to have been set out in an overall rational way. We have a set of savings that are made early on and built into local government settlements; for another five portfolios, things are determined after the spending review is over. I certainly would not want to see the situation handled in such a way again; I would like to see it handled within a strategic framework.

**Mr McAveety:** Given the knowledge, experience and erudition on financial matters that you regularly demonstrate to the committee, can you tell us why things did not happen in that way? When you are having a nice wee glass of wine and speculating with friends and colleagues on these issues, do you wonder why they were handled as they were?

**The Convener:** You are leading Arthur Midwinter into territory for which he is not responsible.

**Professor Midwinter:** I have not been able to drink wine for five years, Frank; you are making me envious talking about it.

**Mr McAveety:** Does it interfere with the whisky?

Given the skills and expertise in the Executive, why were matters not better organised?

**Professor Midwinter:** We know that the Treasury was working on the issue for nine months before an announcement was made. We do not know what was going on in the Executive because there has never been an announcement about that.

The Executive appointed its efficient government team after the first statement on savings of about £500 million was made. One official was in charge at that time, and then there was a trawl for others. My guess is that the Executive was slow off the mark. However, like you, I gather that from the information that comes before me. I have no knowledge about whether anything was going on before the announcement in June 2004 by the then Minister for Finance and Public Services.

**Mark Ballard (Lothians) (Green):** As a new member of the committee and as one who has no background in local government, I am interested in your remarks about the best-value audit of local authorities. Where can I find information about that so that I can identify the relationship between the £168.3 million of assumed local government efficiency savings and the existing auditing and baseline work done at local authority level? Is it possible to assess some of the efficiencies?

**Professor Midwinter:** I have two points to make on that. The best-value audit looks at an authority's management of its resources over the previous few years. About six have been done so far, and all predate this particular process. They will have considered what happened between 2000 and 2004 or 2005.

On the impact of best-value audit, before you joined the committee, we decided to write to local authorities to ask them how they were handling the issue. We visited two local authorities, and it was clear that they were not simply making efficiency savings but were reaching their targets in whatever way they could. Part of the committee's subsequent concern was that although the initiative was supposed to have the objective of allocating resources to service development, because of how it had been handled—cutting the grant to local authorities—there was a prospect of services being reduced and/or council tax being increased.

We are seeking information from councils and have received a number of replies, which we will report to the committee. I understand that we also now have a letter from COSLA about the matter. We have not looked at that yet, so I can give the committee no information about it.

The basic situation is that £168 million was taken from local authorities' block grant on the assumption that that sum could be saved without there being an impact on services. However, my experience of local government is that reducing or increasing grants never has the kind of simple impact that central Government thinks it will have. I expect that we will find that efficiency savings and other savings have been made, some of which might trickle into council tax increases by year 3 of the cycle. I have expressed that view to the committee before and, given what has happened over the past 25 years, that is still what I expect to happen.

**The Convener:** I have two points to make on that. First, COSLA wants to meet Arthur Midwinter and me to discuss how local authorities take forward their targets. Secondly, I think that it is reasonable for the Finance Committee to look at all the budget areas, but that perhaps brings up a point of parliamentary protocol. For example, we must be conscious of the Local Government and

Transport Committee's remit in relation to detailed analysis of what happens in local government. Committees might have to observe certain proprieties when pursuing local government issues, because one committee might go too far and encroach on another's remit.

**Dr Murray:** I want to return to the business of the £319 million from the early losers. Paragraph 9 of the briefing paper quotes a statement from the minister. I might just be stupid—I am sure you will tell me whether I am—but I would have thought that the statement would also have referred to the possibility of having a bidding mechanism for the savings in the pot. However, that is not how ministers have approached the realignment. It is not possible to say, for example, that £1 million was taken from the health budget and put into the communities budget as a specific little parcel of money. Surely there must be consideration in the budget process to giving above-average settlements for particular projects.

**Professor Midwinter:** It would have been better if you had used "ought" there, rather than "must". There ought to have been reallocations of the kind that you suggest, but we have no evidence that there have been. Nothing that has been reported to us suggests that that has happened. There has been no application of a framework in relation to using the release of funds to develop priorities, although we would have expected that to happen. Such an approach would have been consistent with the overall strategic approach that the committee has been trying to encourage ministers to adopt. However, we have nothing to suggest that that happened and the results suggest that it did not—for example, some local authorities got 3 per cent and others got less than 1 per cent.

**Dr Murray:** But we should be able to explain how that accorded with ministerial priorities. I have difficulty in understanding why such information is not available.

**Mr Swinney:** From what Arthur Midwinter has told us, it strikes me that there is no reason why a more rigorous process could not have been put in place. There is no evidence of technology, processes or mechanisms being an impediment to such an approach—it just has not been taken.

**Professor Midwinter:** I agree.

**The Convener:** In the context of Elaine Murray's point, I want to flag up the issue of which budgets we might want to consider. It strikes me that we might want to highlight three. One is the transport budget, which seems to have made few efficiency savings. The second is the lifelong learning side of the Enterprise and Lifelong Learning Department, which also seems to have made no reduction. The third is the rural development budget. Those three

areas do not seem to have delivered any significant efficiency savings.

**Professor Midwinter:** From memory, I think that that is right; I think that that is what the table that we produced indicated. Those areas are what Wendy Alexander has previously described as an “interesting triumvirate”.

**The Convener:** Arguably, the thrust of the savings have come in the local government and health budgets.

I have a final question. One of the points that we started from was a comparison between projected savings south of the border and projected savings up here. The savings have been creeping up in Scotland. My estimates get us to about 0.7 per cent of the initial figure in England. Is that roughly in line with your estimates? The figure was £812 million.

**Professor Midwinter:** I have not gone back to consider the comparison, because I am of the view that we should get away from it. As we cannot do much about it now, we should concentrate on ensuring that what is happening is appropriate for Scotland. Certainly, additional savings have been identified in each exercise. Next week's paper will identify further additional savings. The savings have been creeping upwards—from memory, the figure is now more than £900 million in cash-releasing savings. Those figures will be in next week's paper, because the additional savings came in after this paper was drafted.

**The Convener:** There is a creeping improvement.

As there are no more questions for Arthur Midwinter, I thank him for the paper.

I remind members that John Elvidge will give evidence next week, predominantly on performance monitoring. During its away day, the committee signalled that we wanted to speak to him about resource allocations in the previous spending review, so there will also be the opportunity to raise one or two issues about that next week.

## Budget Process 2006-07

10:42

**The Convener:** The fourth item on the agenda is consideration of two further papers from Arthur Midwinter. One is guidance for the committee on the Executive's draft budget for 2006-07, and the other is guidance for subject committees.

I ask Arthur Midwinter to speak to the two papers. I will then offer members the opportunity to come in.

**Professor Midwinter:** Paper FI/S2/05/20/2 gives the committee my initial thoughts on the draft budget that we received about a month ago. I remind members that, under the new process, this is what we regard as a light year. We take seriously the business of three-year settlements. The big decisions are taken in the spending review year, and we have agreed with the Executive that the committee will concentrate on reporting changes to the plans. That saves us having to go over material that we have already examined.

Overall, there is an increase of £277 million over previous plans. The bulk of that is accounted for by an increase in public sector pensions, which falls within annually managed expenditure. The only other item to note is the transfer of supporting people funding from AME to the departmental expenditure limit; the transfer of that big sum of money puts it within the part of the budget that Parliament can influence.

The third point that I will draw to the committee's attention, which I learned about after I had drafted the paper, is that there is still no provision made for 2006-07 to use the £200 million that was kept in reserve as a result of the partnership agreement two years ago. I have looked out the material from two years ago to send to new members of the committee but, to explain, after the election, there was a period of negotiation between the coalition partners on spending, and additional funding was approved as a result of the negotiations. Approximately £500 million of the additional funding came from business rates because the yield was greater than anticipated owing to the lower level of appeals—the figure worked out at about £125 million a year over a four-year period. A figure of £100 million-plus from one of the public sector reform budgets was also put into the pot to fund the additional commitments, as was some money from the Treasury with regard to debt reclassification.

Overall, more than £700 million was made available: £500 million was allocated and £200 million was kept in reserve in the expectation that budgetary pressures this year might need to be accommodated. I point that out to the committee because £200 million happens to be precisely the

sum that has been announced to Parliament as being needed to reduce business rates. The committee endorsed the decision that was made two years ago and reckoned that it was good practice to keep £200 million in reserve to deal with unknown budgetary pressures. The 2006-07 budget has not yet made use of that £200 million.

10:45

On the overall format of the document, the changes in information are in line with the committee's previous recommendations. There have been only minor changes to targets, which I have reported in paragraph 3 of paper F1/S2/05/20/2.

I am still concerned that the Executive has 94 spending priorities, which is far too many. In some cases, there seems to be a priority for almost every level 2 programme in a portfolio. Such an approach will certainly not be rigorous or systematic enough if we move into a period of retrenchment. Fewer and clearer priorities are needed.

Another plus is the provision—at last—of comprehensive information on grant-aided expenditure. The justice committees have always published GAE provision for the police and fire services. For those who are unfamiliar with local government, I am talking about the sum of money that the Executive thinks ought to be spent on each individual local government service throughout Scotland; that forms the basis of the RSG. One difficulty that the Education Committee has found in trying to monitor the education budget, for example, is that the amount shown in the draft budget is tiny, as the bulk of the budget is locked into the block grant. However, the document now contains comprehensive GAE information for all services.

I considered cross-cutting spending. For the benefit of new members, the committee asked the Executive to go beyond using the language of cross-cutting in the exercise and to demonstrate to us where money is being spent and which spending programmes are regarded as contributing to economic growth, social justice or sustainable development.

In my first stab at the figures, I came up with £1,576 million of spending on programmes to grow the economy, £918 million that has been identified in the portfolio chapters as contributing to equality and £21.25 million of spending on sustainable development. Those figures are almost certainly underestimates and therefore inaccurate. For example, the whole capital programme is regarded as being positive for economic growth and we know that the impact on sustainable development is required to be considered in capital investment appraisals, but the figures are simply my record of

what is in the document. The document can be improved even further, and there is scope for even better integration of strategic issues, budgets and targets.

As a comment on our previous item, I cannot resist drawing to members' attention that the draft budget reports the need for baselines and input and output measures in the efficient government exercise. The problem is that that information is lacking in the document.

The draft guidance is fairly straightforward. The committee should not spend so much time on the budget this year, as it is a light year. The paper lists a number of issues about which I would like to obtain information from the subject committees. For example, they could be asked whether they are content with the ministerial responses that they received last year. We are trying to develop a partnership approach with the Executive to obtain information that the Parliament finds useful. The subject committees could be asked for their views on the spending plans that are referred to in the new resources section, whether they have any proposals to change funding within priorities and so on. The draft guidance has a fairly standard list of questions that we should ask committees.

Members may agree to the papers or amend them as they wish.

**The Convener:** Do members have any questions for Arthur Midwinter?

**Derek Brownlee:** I have a pedantic comment rather than a question. Is there a typo in the draft budget briefing note where it mentions the £277 million? It mentions growth and then a reduction. I did not follow the arithmetic.

**Professor Midwinter:** I do not think that there is a typo. There has been a £401 million rise in the DEL and an £184 million reduction in AME. If one figure is taken from the other, the result should be around £277 million.

**Derek Brownlee:** Are the specifics written down in the budget document?

**Professor Midwinter:** Yes. As I mention in my paper, the difference is mainly due to two big changes: an increase in AME to cover increased provision for public sector pensions and a reduction in AME because the supporting people budget has been put into the DEL.

**Dr Murray:** Your paper comments that different portfolios take different approaches to the cross-cutting priorities, with some portfolios making statements about policy and others referring to specific spending initiatives. Which of those approaches is most useful?

**Professor Midwinter:** My clear view is that I want to know on which specific things money is

being spent. When the equalities team crawled all over the budgets with the portfolio budget holders about two years ago, that was the first time that we learned that about £400 million had been allocated to promote equalities. Budget documents do not need broad statements of policy intent; they are supposed to provide a basis for financial control by the Parliament. We need to know how the portfolios are addressing the cross-cutting issues and what resources are being targeted at them.

**Dr Murray:** I hope that we can make a recommendation along those lines to departments such as the Education Department, which does not follow that approach at the moment. We might want to encourage subject committees to take that forward.

**Professor Midwinter:** Absolutely. The communities portfolio is a good example.

**Jim Mather:** I want to return to the issue that Derek Brownlee raised. If £184 million is subtracted from £401 million, that leaves £217 million, not the £277 million that is stated in your paper.

**Professor Midwinter:** I will check that. It could be a typo.

**Jim Mather:** I am sure that it could. I continue to make a plea that we be given tabular data rather than numbers and narrative. I also like numbers that reconcile.

**Professor Midwinter:** We will make allowances for your failings.

**Jim Mather:** I will deliberately not answer that, but I ask you to read the subtitles.

I could go on. The figure for sustainability is given as £20.25 million in your table but as £21.25 million in the narrative. Those wee details are important, because our credibility is at stake.

**Professor Midwinter:** Okay.

**The Convener:** I want to make three points about the questions that we should ask subject committees to consider.

First, is it worth asking the subject committees to consider which targets should be kept and which should be sacrificed, given the context of a budget tightening exercise? As you have pointed out repeatedly, the Executive will need to prioritise targets and narrow the range of its targets. In the context of the run-up to the next spending review, should we ask subject committees to consider where the priorities should sit in terms of the existing targets?

**Professor Midwinter:** The targets and the priorities are different things. The targets are reviewed automatically in each spending review,

so we should receive a report on the Executive's performance against its existing targets at some point during the next year. The targets have also been reduced from about 160 to about 100. We should probably ask the subject committees to consider that issue next year, once we know when the spending review will be. Has the minister made an announcement yet on the spending review?

**The Convener:** No.

**Professor Midwinter:** Just before the spending review is the key time to ask the subject committees to say which targets they find useful.

**The Convener:** Although we have reduced the number of targets by getting the Executive to strip out many of the process targets, my point is that, as you said earlier, a priority target is attached to almost every level 2 priority in the portfolio budgets. Instead of the subject committees waiting for the Executive to go through the spending review process, they could perhaps be asked just now to look a bit further ahead than this year's budget and consider, given the context of a tightening financial climate, the direction in which their portfolio or department should head if the targets need to be thinned down. Is that too strong a suggestion to make at this point, or is it worth pushing in that direction?

**Professor Midwinter:** I would be quite relaxed if the committee wanted to do that.

**The Convener:** I am not certain that it should be done this year or next year, but I think that it should certainly be done before we reach the spending review. By the time of the spending review, it will be too late and we will be in a situation in which decisions are made without subject committees having the chance to comment.

**Professor Midwinter:** We need to get their views on priorities now. If spending tightens, that will start to happen next year. We are not expecting much additional money next year. We need to have a clear picture of when the spending review will take place, so that we can start to think through the strategy for dealing with issues relating to targets.

**The Convener:** My second question relates to demand-led budgets. Community care is an obvious example, although I am sure that there are many others, such as concessionary travel and supporting people. In some budgets, demographic pressures may have an impact on potential spending. Should we ask the subject committees to begin to consider that issue—perhaps not in this budgetary period, but in the future? Should they examine the long-term trends that are affecting spending in the areas for which they are responsible?

**Professor Midwinter:** Yes. The Executive should also do so. Presumably, behind the scenes the Executive has extrapolations of what demographic trends will mean for its programmes. The Health Department used regularly to issue a statistic that indicated that demographic changes would add around 1 per cent to the costs of the health service, because more elderly people were surviving and so on. Such information would be very useful in the run-up to the spending review, especially when we are trying to encourage a long-term approach to these matters.

**The Convener:** In order to achieve that, we may need to ask the Executive to begin to provide such information. It may be an issue for us to take forward next year, but we certainly need to deal with it.

My final question relates to subparagraph 5g. At the end, you ask whether the Equal Opportunities Committee wishes to comment on the information on the equality agenda. Should we ask each of the subject committees to address that issue? The same may apply to the sustainable development agenda.

**Professor Midwinter:** That would be fine. I thought that I had made that suggestion—I am sorry if I missed it.

**The Convener:** It would be helpful for us to separate out the two issues of equality and sustainable development.

**Mr Swinney:** I would like to ask a couple of questions about the pot of money, totalling £700 million, that was identified as a result of increased yield from business rates and some other things. I take it that the £200 million reserve to cope with spending pressures has effectively been identified only for the 2006-07 budget. What is the expectation for 2007-08?

**Professor Midwinter:** The £200 million has not yet been allocated, so if it is not used in the current budget it is available for use the following year. The total figure is higher than I remember—it is £878 million. At the time, £525 million was allocated. A further £150 million was to be built into the current year to fund items in the partnership agreement. We will send out that information to John Swinney. The total over the years was £878 million, and £200 million is left unallocated. The rest has been allocated and used to fund elements of the partnership agreement that have financial implications.

**Mr Swinney:** Is there an expectation concerning the yield from business rates in the next financial year?

**Professor Midwinter:** The documents will include a projection for 2007-08, which we can

pass on to you. It may be included in the draft budget.

**Mr Swinney:** I will look for that later.

I have a more general point about the mechanism for making an announcement about spending within a budget that has not previously been allocated. Is the only mechanism for that a ministerial statement in which a minister describes how they intend to spend that money or is there an arrangement for regular reporting to the committee, whereby what will happen to the sum of £200 million that has been mentioned, for example, is set out?

11:00

**Professor Midwinter:** I will probably need help from Susan Duffy to answer that. With end-year flexibility, for example, ministers make the announcement in June and the formal proposal comes before the committee in the autumn. We receive the formal budget documents, such as the annual evaluation report, the draft budget, the "Building a Better Scotland" document and the budget revisions. When an ad hoc announcement is made, such as the one that the First Minister made on business rates during his recent statement on the Executive's programme, I am not sure what needs to happen, legally. I assume that such a proposal needs to be endorsed by the Parliament at some stage. I think that the First Minister's proposal was to reduce the business rate take by £200 million next year.

**Mr Swinney:** I have not picked up that the proposal relates to next year.

**Professor Midwinter:** I have a copy of something that was said about that. I do not know whether the committee has been told that the £200 million reduction relates to 2007-08. You are right to say that the year was not specified in the statement that was made.

**Mr Swinney:** I have heard nothing about the figure applying to 2007-08.

**Professor Midwinter:** Someone has definitely told me that the figure relates to 2007-08, but I cannot remember where I heard that. It has been reported regularly on television that 2007-08 would be the relevant year.

**The Convener:** We can pursue that with the minister. Arthur Midwinter is right that shifts in spending will emerge during the budget revisions that are made in the course of the year. If the minister makes an announcement to the Parliament on EYF or business rates, it is within the committee's competence to seek further information and I expect that we would normally do that.

**Mr Swinney:** When I read the *Official Report* of last week's meeting, I was struck by Professor

Midwinter's comments about a new principle called ad hocery and I agreed with his sentiments. What can the committee do to monitor how the Government makes announcements about additional financial commitments that may affect budgets that are already approved? How can we keep tabs on that?

**Professor Midwinter:** I certainly consider it to be my role to ensure that any such change is brought to the committee's attention. That is why I raised the issue of the £200 million last week. The fact that I was aware of the £200 million figure two years ago is a sign that I will stay on top of such matters and ensure that the committee hears about them. That is a constant effort because of the way in which ministerial announcements are made. After the First Minister has made the broad statement, other ministers re-announce part of it to tie in with their programmes.

I was unhappy with the way in which the £200 million-worth of further efficiency savings was announced to Parliament out of the blue. There is a three-year strategy, to which Parliament has agreed. It was not as if there was a crisis that meant that an announcement about the £200 million had to be made. I felt that the First Minister's statement was not the place in which to make such an announcement; in my view, that should have been done as part of the budget process. The problem is that four of the parties are probably in favour of the decision; nevertheless, I was not enamoured of the way in which the announcement about it was made.

**Mark Ballard:** Perhaps unsurprisingly, I want to take up the fact that the total figure of £20.225 million that you give for the cross-cutting issue of sustainable development is much lower than the figures for equality and economy. In the environment budget, specific sums are mentioned under growing the economy—they add up to the total of £1,020 million that you identify in table 1 in your briefing note—but no specific sums are mentioned under sustainable development, which is why you have no figure in that column. However, several level 3 categories of spending are mentioned as contributing towards sustainable development. Do you have any idea—

**Professor Midwinter:** Are they costed?

**Mark Ballard:** No.

**Professor Midwinter:** That takes us back to Elaine Murray's point about the need for good information. The information has always been like that. I do not know why. The Executive's general line is that sustainable development is a principle that it applies across all spending. It does not identify initiatives that are deliberately designed to promote sustainable development. I do not know why it does not include that information.

**Mark Ballard:** Communities has a recurring £12 million for dealing with contaminated land. There does not appear to be any internal logic, apart from—

**Professor Midwinter:** There is no consistency between departments. Often, what goes in is left to individual departments. The finance co-ordination team sends out a general framework, but what finally goes into a portfolio is more dependent on how the department treats it. I am not privy to the internal workings of the Executive. As I said, these things are understated, but with a bit of effort the Executive could do the same for sustainable development as it did for equalities. If three big issues are cross-cutting priorities but we cannot tell how much is being spent to tackle them, there is a problem.

**The Convener:** An obvious example is that if expenditure on public transport was categorised as a sustainable development priority, the amount that is allocated to sustainable development would increase significantly.

**Mark Ballard:** The sustainable action fund is there to support research and development in support of sustainable development. If it were to be counted as spending that supports sustainable development, that would immediately boost the figures. However, no figure is put next to that in the environment budget, which is why Arthur Midwinter has not counted it. I was confused about whether there is an internal logic or—

**Professor Midwinter:** There might be an internal logic within portfolios but not across portfolios. My counterparts in the finance co-ordination team have been pushing departments for such changes but, given the internal power balance, I am not sure who decides what finally goes in. The document is produced towards the end of the process.

**The Convener:** I think that we have finished the questions. There is one modification to be made to the draft budget guidance to subject committees. I invite Susan Duffy to say what the change is.

**Susan Duffy (Clerk):** Paragraph 5g would be changed to, "Further to the above, each chapter contains information regarding departmental contributions to cross-cutting priorities. Does the committee wish to make any comments on this information?" In that way, we will capture all the cross-cutting priorities: sustainable development, equalities and growing the economy.

**Professor Midwinter:** We will adjust the figures that Jim Mather spotted and recirculate the paper.

**The Convener:** Are members content to approve the document that will go out to the committees?

**Members indicated agreement.**



## Correspondence

11:09

**The Convener:** Agenda item 5 is consideration of correspondence that I received from the convener of the Subordinate Legislation Committee. Members will see from the paper that accompanies the correspondence that I propose that we should make a submission to the Subordinate Legislation Committee's inquiry into the regulatory framework in Scotland, given the discussions that we have had about the procedures for scrutinising the financial impact of subordinate legislation. We raised concerns during scrutiny of the parent act. Do members agree that we should make a submission and that it should be considered in private at our next meeting?

**Members** *indicated agreement.*

## Interests of Members of the Scottish Parliament Bill

11:09

**The Convener:** Agenda item 6 is consideration of our approach to scrutiny of the financial memorandum to the Interests of Members of the Scottish Parliament Bill. Given the minimal amount of money that is involved, I propose that we seek comments from the Scottish Parliamentary Corporate Body about the accuracy of the figures and that we produce a short report. As the paper says, we would not usually produce a report for a bill with minimal financial implications, but because the bill is a committee bill we are obliged under standing orders to do so.

Do members agree to the proposal and agree that we should report by correspondence, given the short timescale and the fact that there will be a three-week period during which we are unable to have a committee meeting?

**Members** *indicated agreement.*

11:10

*Meeting continued in private until 11:11.*



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